the Freeman

Ideas on Liberty

JANUARY 1985

Beyond the Market

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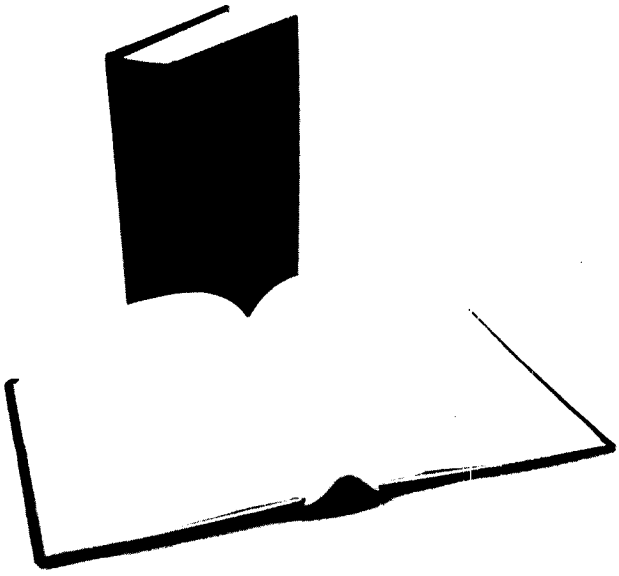

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A MONTHLY JOURNAL OF IDEAS ON LIBERTY

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Liberalism Stands for Freedom

IN the last two decades, we have gone a long way from the liberal concepts of individual freedom, limited government, equality under the law and the rule of law as contrasted with the rule of men. This trend is the result of neo-liberalism which has changed the popular meaning of the term "liberalism" so that to most people today it stands for a philosophy diametrically opposed to traditional liberalism.

Traditional liberalism regards government as a necessary evil. It fears government and seeks to impose restraints upon its power. As Woodrow Wilson expressed it, *"The history of liberty is the history of limitations of governmental power, not the increase of it."* Today's neo-liberals believe in increasing the authority of the state at the expense of individual liberty. Communists look upon the centralization of all power in the state as a necessary prelude to the police state which is their goal. But, many neo-liberals abhor the police state. They merely want to do good and improve the lot of mankind. But they want the government to have *unlimited* power to do good. They look upon the citizen with suspicion and upon the government with approval. They seek to build a government of unlimited powers to control and regiment the individual for the good of society, to prevent the strong from taking advantage of the weak, to offset inequalities in incomes and wealth, and to play the historic role of Robin Hood who robbed the rich and distributed some of the proceeds to the poor. Neo-liberals unwittingly are playing the communist game. They mean well but they fail to recognize the harsh truth of Lord Acton's dictum: *"All power tends to corrupt, and absolute power corrupts absolutely."* If we follow them we shall end as slaves of an authoritarian state. That is not the goal of neo-liberals but it is nevertheless the destination toward which they are headed.

—*Towner Phelan,* October 1948

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John A. Davenport

Beyond the Market

WHEN the historian of the future comes to examine the mores and foibles of current American society he will, we trust, at least drop a footnote on the increasing popularity of the Adam Smith tie. This bit of haberdashery manufactured in blue and maroon colors and emblazoned with the profile of the founder of modern economics, has become the badge of honor of an increasing number of scholars, businessmen, and even politicians who have never struggled through the thornier passages of *The Wealth of Nations.* Its spread represents a quiet revolution in our affairs.

Forty years ago when Nobel prize winner F. A. Hayek published his seminal tract, *The Road to Serfdom,* all Western Europe seemed doomed for socialization and even in the United States the case for centralized government planning ran high. Today, though governments everywhere continue to do many foolish things, the tide has turned. Socialists and planners we still have aplenty in our midst but they are on the defensive. The battle for the market economy has been largely won, intellectually speaking.

This is an immense and hopeful turn in our thinking, presaging not only higher living standards for many of the world's societies but also a curb on the overweening power and inefficiencies of government bureaucracy. Yet there lurks in this revolution of ideas a temptation and in-

This essay draws on a paper submitted to a recent meeting of the Mont Pelerin Society at Cambridge University in England on the topic of Moral Agreement in the Free Society concerning which many divergent views were expressed. The author was one of the founding members of the Society in 1947 and is a former editor of *Barron's* and *Fortune.*

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deed a hidden danger. The danger is that we should come to regard the market as a kind of *deus ex machina*, attributing to it tasks it cannot reasonably perform and, in that very act, avoiding the deep moral issues which confront a free society and multiply the more as freedom of choice and options multiply.

An Uncertain Trumpet

On this score it would appear to me that the market, for all its healthy discipline, speaks with a very uncertain trumpet. There has long been and perhaps, short of a New Jerusalem, there always will be a market for prostitution. There is a "clearing price" for cocaine and heroin no less than for the more beneficent Coca-Cola. Free marketeers may argue that the profits of the drug trade and the pusher might be minimized by legalizing such drugs but this is a tactical point. The case against heroin is the same as against murder or suicide: it kills.

Moreover it turns out that the market itself, to be efficient, is dependent on a whole matrix of customs, laws, and moral convictions as to what is right and what is wrong. In his essay on "Our Moral Heritage," Hayek points out that the market and the free society are dependent on at least two institutions and one virtue. The first is the legitimacy of private property without which there could be no capital accumulation or indeed capitalism as we know it, or for that matter much civility. Mark in this connection the high price we pay today for the spread of petty larceny which has brought in its train the security guard, the noxious office pass system and, incidentally, a booming trade in all manner of electronic devices to prevent burglary.

More interestingly Hayek pays tribute to the family as the means by which one generation passes on its experience and values to the next. Finally he has a good word to say for plain old-fashioned honesty, and one is glad to hear it mentioned. I call up my broker to buy or sell General Motors. He executes the order with no more than the sound of my voice as security. True, if either of us proved dishonest, legal action could be taken. But if we had to wait for the courts to decide such issues it is fair to say that the New York Stock Exchange would close down tomorrow and our intricate banking and credit system would collapse as well.

Beneath the Hidden Hand

The paradox thus emerges that while the market does not always generate ethical values, it is deeply dependent on them for its efficient functioning. This paradox has enormous significance in maintaining the free and open society whose central challenge is to grant liberty to individuals while still maintaining

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order and continuity in our affairs. The great contribution of Adam Smith was to show that if citizens are free to follow their own self-interest they will be led "as by an invisible hand" to fulfill beneficent social purposes that were no part of their original design. But this faith in the invisible hand never led Smith to doubt the legitimate functions of government in enforcing the rules of the road.

More important, his whole philosophic outlook implies one further factor that tends to go unnoticed—namely, the widespread acceptance of moral and indeed religious imperatives which in the England of his day were taken almost as a matter of course. It is these that have been undermined by what Walter Lippmann once called the "acids of modernity" and their reinstatement is required if the market is to fulfill its promise. Pretty clearly that job lies beyond the purview of economists however well equipped with demand, supply, and indifference curves.

The Greek Way

The late Frank Knight, Nestor of what is today known as the Chicago School of economists, was fond of quipping that the less moral issues were talked about the better, since they defy rational determination. But the men who launched philosophy on its wayward course, and who laid the foundations of logic, ethics and metaphysics, were subject to no such restraint. Living in Athens of the Fifth and Fourth Centuries B.C., they saw plenty of freedom around them, if we disregard the institution of slavery, but disliked what they saw: luxury, vice and the awful treachery of Alcibiades. Hence Socrates' constant reference to the "inner voice" of duty in his endless arguments with the Sophist Thrasymachus who cheered for mere self-interest and the doctrine that "might makes right." Hence Plato's invocation of the overarching concept of the Good in his delineation of a Spartan republic. Hence, finally, Aristotle's argument that the end of man is Happiness, but Happiness achieved through the pursuit of excellence and virtue.

Libertarians who of recent years have borne the heat of the day in trying to restore sanity to our economic affairs may well view with suspicion these Greeks bearing gifts. For admittedly there is scarcely a governmental folly of our times that has not been committed in the specious name of "reform": the fair wage and the just price and the welfare state. More generally one must guard against those who think they have a monopoly on virtue and then invoke the power of the state to further their views. This is the sin, if it can be called such, of the Moral Majority who hopelessly mix up prin-

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ciple with pressure group tactics. Governor Cuomo of New York was quite right when he argued that his views on abortion as a Catholic gave him no license to legislate what many Catholics may not be able to enforce on themselves. Something might even be said for Thoreau's avowal that he would take to his heels if he heard that someone was coming to do him good.

Liberty Is a Gateway

Nevertheless I would argue that the classical emphasis on ethical norms and standards is critical to our times and complements rather than contradicts the best of the libertarian tradition. Liberty is a gateway, not a resting place. Its use or abuse has far-reaching political consequences. The sharing of ideals may be of greater importance than the much discussed sharing or non-sharing of wealth.

Aristotle's Golden Mean—nothing too much—was a crude attempt to restore harmony in men's conflicting desires and passions. With the coming of Christianity, the Golden Mean gives place to the Golden Rule—do unto others as you would be done by—and to Kant's categorical imperative: treat others as ends, never as servile means. The truth is that Freedom and the Good are two interdependent concepts in tension, and one will spin out of orbit without the other.

The question remains as to whether morality requires buttressing by religious faith. The Declaration of Independence implies as much by its reference to the Creator and to the "laws of Nature and of Nature's God." But we all know of many good men who are today held back from this final leap, whether through dissatisfaction with current orthodoxies, the sad "politicizing" of our churches as evidenced by their most advertised National Council, or through the fact that faith—"the substance of things hoped for; the evidence of things not seen"—so clearly transcends the power of reason. Yet there lurks here an even more important obstruction: the tendency of modern science, or in Hayek's phrase "scientism," to overreach itself and so make both religion and morality irrelevant. Two heresies of Western origin must be discarded if we are to preserve freedom of religious choice as guaranteed by the Constitution.

The first is the clanking materialism of Marx which might not have to be taken seriously were it not today armed with ICBMs. The second heresy is found, curiously, in modern Behaviorism. Behaviorism starts with the common sense notion that if we are to study man, we must take account of what he does no less than what he thinks and says. In the hands of John B. Watson and now of B. F. Skinner, behaviorism becomes

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something quite different. Because body and brain are associated with consciousness, we must, on Skinner's view, eliminate the latter entirely from the discourse. Consciousness, mind, willpower, emotion—all that makes man man—is swept away. The human being becomes simply a series of knee jerks in a mindless universe, the *Fifth Symphony* simply horsehair scraped over catgut.

Needed: A New Metaphysics

This naive and indeed impudent reductionism is not science, which requires a perceiver no less than the perceived. It is a false metaphysics as old as Democritus who conceived of the universe as only a whirl of atoms. As Alfred North Whitehead once intimated in his *Science and the Modern World*, what is needed is a new metaphysics that would reconcile empiricism with man's inner apperception of self-hood and his higher aspirations. Such synthesis of new and old may well come, restoring, if not God in his Heaven, at least faith in the mystery and reality of the many-colored world around us from which scientist, artist, and theologian make their start. When that breakthrough comes, it will outrank in importance the discoveries of Copernicus and Galileo.

Meanwhile, in view of political turmoil without and intellectual discord within, it would appear that libertarian and classicist, modern secularist and religious believer, face a considerable task in the immediate future: to honor Adam Smith's invisible hand as against the mailed fist of the tyrant; to reaffirm the dignity and indeed the sanctity of the individual person; to hold the barbarians, who have said they come to bury us, at the gate and so preserve what Winston Churchill in a dark hour defended in the name of Western Christian Civilization.

IDEAS ON LIBERTY

Freedom as a Moral Principle

THE most important among the few principles of this kind that we have developed is individual freedom, which it is most appropriate to regard as a moral principle of political action. Like all moral principles, it demands that it be accepted as a value in itself, as a principle that must be respected without our asking whether the consequences in the particular instance will be beneficial. We shall not achieve the results we want if we do not accept it as a creed or presumption so strong that no considerations of expediency can be allowed to limit it.

F. A. HAYEK

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John Hospers

Justice versus "Social Justice"

It is individual human beings who are born, live, enjoy, suffer, and die. Individuals sometimes band together into groups; but groups as such do not live, love, or suffer; only their individual members do. The individual, not the group, is the unit.

Individuals interact with one another, in families and larger societies. Sometimes they act wrongfully toward others; and one kind of wrongful action is called injustice. But what does this mean? What precisely is involved in an action being just or unjust?

Justice, in a tradition going back to Aristotle, means *treating individuals in accordance with their deserts.* If a teacher gives a student a C when the student deserves a B, the low grade is an injustice to the student. It is equally an injustice when the teacher gives her an A which she doesn't deserve. Though the student is not likely to complain of her grade in the second case, it is an injustice all the same, since it is treatment that is not in accord with desert. Moreover, every case of an undeserved high grade involves a diminution of the value of the grade; the more numerous the B students who get undeserved A's, the less the grade of A comes to mean, and the less it distinguishes the genuine A student from the others.

There are some distinctions about justice which should be kept in mind before we apply them to particular cases.

John Hospers is a professor of philosophy at the University of Southern California, Los Angeles. He is the author of numerous books, such as *Human Conduct, Understanding the Arts,* and *Introduction to Philosophical Analysis,* as well as several anthologies and more than one hundred essays in journals and encyclopedias. He is president of the American Society for Aesthetics, and was the first Libertarian Party candidate for U.S. president (1972). He is editor of the philosophical quarterly *The Monist.*

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Distinctions About Justice

1. Justice has to do with the treatment of persons by other persons. The lion is not being unjust to the antelope in killing it. The lion is not a moral agent, and no right or wrong, no justice or injustice, is involved.

If a child is born crippled or diseased, this is a misfortune but not an injustice. Injustice requires some person or persons to perpetrate the injustice. (Even those who say that God caused the baby to be born crippled or diseased are not likely to accuse God of injustice.) Congenital deformity is something that unfortunately occurs, but it is not something that someone has *done* to someone else; no person has wronged another.

2. Justice depends on desert, and desert is a matter of past performance, not of future possibilities. The grade a student deserves in a course depends upon his past record of achievement in the course. If a man deserves a punishment for a crime, it is because that person committed a crime in the past, not because (for example) it would be useful to punish him as a scapegoat; punishing the innocent is always unjust. Nor is it just to punish him because he might commit a crime in the future. Preventive detention of persons believed to be dangerous is sometimes used as a utilitarian measure, to prevent the commission of crimes in the future, but this is done from considerations of utility, not of justice. (Justice is not the whole of morality, and whether preventive detention is ever justified would have to be argued separately.[1])

3. Sometimes a law itself is unjust; if every driver who parked too long at a parking meter were to be given a prison sentence, such a law, however impartially administered, would be unjust because the sentence is harsher than the offense deserves. But more often it is the *administration* of the law that is unjust; one man gets five years for armed robbery and another man guilty of the same offense is given a suspended sentence, or convinces the jury that he is insane, thus receiving an insanity verdict which may let him out in sixty days. Such maladministration of the law is often called *comparative* injustice. Many prisoners who accept full responsibility for their actions and do not claim that their sentences are undeserved, still complain of comparative injustice: why were they sentenced when someone equally guilty was let go? Their sentence may itself not have been unjust, but the injustice lies in the lightness or absence of the other person's sentence compared with theirs.

Justice is compatible with *forgiveness* if the person *deserves* to be for-

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given. But the only person who can forgive the aggressor is the victim. If the offender asked the person he injured "Will you forgive me?" and the victim said "No," and a stranger then entered the room and said "That's all right, *I* forgive you," the stranger could only utter the words, not actually extend the forgiveness; only the aggrieved party can do that. "I don't want the mother to embrace the oppressor who threw her son to the dogs!" wrote Dostoyevsky. "She dare not forgive him! Let her forgive him for herself, if she will, let her forgive the torturer for the immeasurable suffering of her mother's heart. But the sufferings of her tortured child she has no right to forgive."[2]

As opposed to forgiving, *pardoning* is a legal act: a president or a governor may pardon a criminal. Is pardoning compatible with justice? Again yes, if the person deserves to be pardoned.

4. Justice is a very different thing from *mercy,* and mercy may be at odds with justice. "But shouldn't justice be tempered with mercy?" Let us consider what this would involve. Suppose that five men have committed murder, but one of them is let go as an example of mercy. This is surely a comparative injustice to the other four, as well as an injustice to the one who is let go (assuming that he deserves the assigned punishment). If mercy is so wonderful, why shouldn't *every* criminal be let go? That would *really* be merciful! Why shouldn't every teacher give every student an A as an act of mercy? Because, of course, this would be a great injustice, especially to the students deserving A's. It would also be mercy to give everyone a job demanding literary skill, even to persons who are illiterate—and more merciful still to give them wages for doing nothing at all. Mercy in this sense would mean a total abandonment of justice. (Mercy in a much different sense, such as "giving the defendant the benefit of the doubt" in criminal cases [procedural justice], giving him a chance to improve his conduct, etc., is desirable enough, but these are already incorporated in the notion of just treatment; they are included in justice, they do not supersede it.)

Justice vs. Collectivism

5. Most important of all, justice is individualistic: since the deserts of individuals differ from one another, so should their rewards and punishments differ from one another. That is why Aristotle said that justice consists of "treating equals equally, and unequals unequally." If five persons have committed no crime and five other persons have committed crimes with a one-year sentence attached, it would be unjust to average out all their records and condemn all ten to six months in jail. The inno-

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cent do not deserve the sentence, and the guilty do. Justice is not a matter of averaging; it is a matter of assigning to each individual his or her proper desert.

The example just given illustrates the opposite of justice, namely *collectivism:* that is, not considering a person's individual deserts but considering his behavior solely as a member of some group. Suppose someone in tribe A has killed a man in tribe B, and in retaliation the members of tribe B conduct a massacre of the entire tribe A. Only one of the members of tribe A was guilty of murder, but all his fellow tribesmen are killed, not because they were involved in the killing but simply because they were members of the same tribe as the killer. Such tribal retaliations, though common in primitive societies, are gross injustices because they involve the punishment of those who do not deserve it. (A variant of this occurs when the members of tribe B select a member of tribe A at random and kill him, even though the person killed was not the person who was guilty; he was selected not because he was guilty, but simply because he happened to belong to the same tribe as someone who was.)

Racism is a particularly pernicious form of collectivism. Persons who cast racial slurs on others are not considering the individual merits or demerits of the person slurred; they may not know the individual at all, except that he is a member of some racial group (Jews, blacks, Italians, etc.). Though the person's individual qualities may be quite different from many other members of the group, all this is ignored: all they know or care is that he is a member of that group. "A genius is a genius, regardless of the number of morons who belong to the same race—and a moron is a moron, regardless of the number of geniuses who share his racial origin. It is hard to say which is the more outrageous injustice: the claim of Southern racists that a Negro genius should be treated as inferior because his race has 'produced' some brutes, or the claim of a Nazi brute to the status of a superior because his race has 'produced' Goethe, Schiller, and Brahms."[3]

Vagueness of "Desert"

All might agree that justice is treatment in accord with desert, and yet they might disagree on particular judgments about justice because they do not agree on what particular punishment, grade, compensation, etc. a person deserves. Everyone agrees that a murderer should be punished, but there is much disagreement about what specific punishment is deserved: should it be the death penalty? should it be life imprisonment? should it be imprisonment for a stated term with possi-

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bility of parole? should it involve incarceration in a prison, or would duty on a work farm suffice?

There is general agreement about the severity of various offenses: murder, which takes away the victim's life, is a worse crime than assault and battery, from which a victim may recover and resume his life thereafter; crimes against the person are worse than crimes against property, which can usually be replaced; and so on. Yet this is not always so: there are forms of mutilation that are worse than death, and the theft of a valued and irreplaceable family heirloom may be a worse loss to the victim than being mugged. Since each case is unique, it is necessary to describe in detail the circumstances of each case in order to form any estimate of the person's desert.

Even with such a detailed description, along with a sincere attempt to empathize with the situation of both parties, there will be disagreement about desert. A woman will ordinarily recommend a severer punishment for rape than a man will. A wife will tend to be more sympathetic to the position of a wife in divorce court, and a husband will tend to be more sympathetic with the husband. Those who do not care about animals will tend to be immune to pleas about cruelty to animals.

"Put himself in the other person's place" is a piece of advice that most individuals can practice only very incompletely; and even when they try, they will be likely to favor those who have been in situations similar to their own. A criminal will be likely to be more concerned with the treatment of prisoners, but a person who has been stabbed is more likely to identify with the victims of stabbing and less likely to be worried about how the aggressor is treated in prison. This ineradicable "human equation" will probably color all of a person's judgments about deserts—even a judge's.

Is the Punishment Deserved?

In all this, however, it must be kept in mind that the only consideration relevant to justice is whether the treatment (the punishment, the reward, the grade, the compensation for work done) is deserved. Punishment should be proportional to desert, whatever that may be; it should not be proportioned to the *usefulness* of the punishment, as it is in utilitarian theory. The question for justice is "What punishment does he deserve?" not "What punishment would be most socially useful?" As a rule the two tend to coincide: the most serious crimes (involving the worst injustices) tend to be those that also require the strongest deterrent measures in order to prevent them from recurring. But it is not always so. It might be socially *useful,* especially during a crime wave, to con-

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vict an innocent person and punish him as an example, thus deterring potential lawbreakers and giving the members of the community a renewed sense of "law and order." But of course the conviction of an innocent person, no matter what its social utility, is always an injustice, because the innocent person does not deserve to be punished.

When we turn our attention from the prison to the marketplace, we face equally pressing problems. What should be our criteria for determining what compensation a worker deserves? Is there such a thing as a "just wage" and how do we determine it? Does justice commit us to "equal pay for equal work"? Is discrimination in hiring unjust? Does the free market, when it is permitted to function, result in injustice?

"Equal Pay for Equal Work"

Does justice require that employees receive equal pay for equal work? That depends on what "equal work" means:

1. If it simply means equal *time* spent, this has very little to do with justice. One employee may work diligently throughout the workday, and another may spend half her time on the phone with her friends while letting the customers wait in line (as frequently happens in government offices, such as the Department of Motor Vehicles). To give two such employees equal pay would be unjust, though this is typically what occurs.

2. "Equal work" may mean equal *effort* expended. Two employees may each work to their full capacity during the workday—they both "do their best." Should they receive equal pay? Again, not necessarily. The one may have more background and experience and expertise in the job than the other; and ordinarily more experienced employees do, quite justly, receive more. Also, in any kind of job requiring imagination, one person may exert maximum effort and produce little or nothing, while the other may with less than maximum effort achieve brilliant results. Doesn't the second deserve a higher return? (If he didn't receive it, another employer who appreciated ingenuity and initiative would probably hire him at a higher wage.)

But if both exert that same effort, and the difference is that the second employee is brilliant and the first is dull and rather stupid, isn't it unfair (unjust) to penalize the dull employee for a quality, such as unimaginativeness, which he lacks through no fault of his own? If they're both doing their best, why give less to the dull one? Isn't this an injustice? No: it's true that it's not the dull person's fault that he is not as gifted, but his lack of intelligence

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is a misfortune (like a disease), not an injustice imposed on him by other persons.

3. But "equal work" can also mean the *product* of effort, namely *achievement.* A student who deserves and receives an A in mathematics may have a great natural aptitude for it, and may work far less hard than a duller student did for his B or C. But the grade is a measure of achievement, not of effort or time expended. The employee in a factory whose productivity is high (either in quantity or in quality, or both) deserves higher pay, having contributed the most to the organization that employs him. If high achievers receive higher compensation, this is hardly an injustice.

Justice and Job-Discrimination

But of course not everyone does receive higher pay for higher achievement. Some employees are compensated less because of their race or sex; some are turned down as applicants because of this, before they have a chance to achieve anything in a job at all. Isn't this an injustice? And doesn't justice demand, as "affirmative action" programs insist, that the injustice be rectified by giving the victims of discrimination preference in jobs available now?

That depends. (1) If it is not you but your ancestors who have been the victims of discrimination, then giving special consideration to you in no way helps *them.* To hire an underqualified applicant because his great-grandfather was a slave, is no help to the deceased slave; a grave injustice was done, but nothing can be done now to remedy *that* injustice. To reward someone now because another member of the same racial group was once penalized is sheer collectivism.

(2) But if the person *himself* has been discriminated against in the past, measures can usually be taken to correct it: past injustices can often be corrected.

(a) You may have been the victim of job-discrimination because the educational facilities in your neighborhood were poor; you never learned to write or add properly so as to be qualified for any decently paying job. To hire the underqualified person anyway is no solution: it is not just to students to inflict on them a poor teacher because (for reasons that are not, or not entirely, her fault) she was discriminated against in the past. And to the extent that such hiring is practiced, the students in a school or fellow employees in a factory come to view the new employee as a case of "sympathy-hiring," rather than hiring on the basis of genuine qualifications for the position; which does nothing whatever either to improve the quality of the instruction or to promote harmony among races.

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On-the-job training may help to remedy this defect—a device that many employers use. And in the longer run, changing the educational system so that these radical disparities in educational background no longer occur, is even more effective. But hiring an incompetent employee is only an attempt to correct one past injustice by perpetrating another one.

Curing Past Discrimination by New Discrimination

(b) Suppose, however, that of two applicants for a job, A, who is black, is more qualified than B, who is white, but B gets the job because he is white. This is certainly a case of job-discrimination on account of race. The question is how to remedy it. Suppose the position falls vacant; should A, who was turned down before, now be hired in preference to the other new applicant, C? If they are equally qualified, yes: this would help at least to correct a past injustice. But suppose that C is more qualified than A is. Then hiring A rather than the more qualified C constitutes an injustice to C. (It's not C's fault that she is white, any more than it was A's fault that she is black.)

There are many such cases in which acts of past discrimination can be corrected only by committing another act of unfair discrimination in the present, thus perpetuating discrimination, not eliminating it. If a past act of injustice can be remedied by creating another one in the present, it may be that the cure is worse than the disease; perhaps it would be preferable, rather than to commit a second injustice to correct the first, simply to say *no* to any such discrimination in the future. In that case, we hire whomever is most qualified for the job, regardless of the race; and if by this procedure a past act of unfair discrimination remains uncorrected (for this time only), at least no future acts of discrimination need occur as a result.[4]

Other Aspects of Job-Discrimination

1. It has been assumed thus far that one's race or sex is irrelevant to one's qualifications for a job. But this, of course, is not always the case. An employer is not necessarily treating an applicant unjustly if he hires a man rather than a woman as a bodyguard or as a bouncer in a bar; the woman is turned down not because of her sex but because she lacks the physical qualifications for the job. Similarly, a white actor is not being unjustly treated in being passed over for the role of Othello, which requires a black actor to take the part. If justice in hiring is based on one's qualifications for the job, sometimes a person may lack the qualifications precisely *because* of sex or race.

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2. It is worth noting that most employers will not turn down a qualified black applicant in favor of a less qualified white applicant, even if only for reasons of self-interest: his company will prosper only if he takes on the most qualified applicants, regardless of race or sex. Why is the percentage of unemployed black teenagers almost 50% today, whereas it was less than 10% in the late 1940s? It is not because employers have suddenly turned racist; it is because government interferences in the marketplace, which were intended to help minorities, have actually hurt them. For example, minimum-wage laws have prevented many teenagers from being offered summer jobs, and from receiving on-the-job training (since before they acquire a skill the employer would lose money by hiring them at the legal minimum wage). There are countless examples of this, and a reading of *Markets and Minorities* by the distinguished black economist Thomas Sowell should be sufficient to convince anyone of it, popular propaganda to the contrary notwithstanding.[5]

3. One should keep in mind the difference between justice and *rights*. Many would contend, as I would, that no one has a *right* to a job: for example, no employer should be forced by law to hire an employee he doesn't need, or even to hire an employee he doesn't want on his payroll; if it's his own money he's dispensing (and risking), he is within his rights to hire whom he pleases. If he is a racist who refuses to hire blacks or Mexicans, he may well suffer economically for his prejudices: if he fails to avail himself of many of his best qualified applicants, he will himself be the loser, especially when his non-racist competitor employs them; but that is a punishment he takes on himself by being a racist. Many employers may have racist *feelings*, but if they want to stay in business they do not let these feelings get in the way of their pocketbooks.

His failure to hire certain persons is, then, not a violation of the *rights* of those whom he fails to employ; no one has a right to a job that another person has to pay for. But in refusing to hire those applicants who are most qualified, he *is* committing an injustice, because he is not treating others in accordance with their deserts. The *right* to so treat them is not incompatible with his being *unjust* in so treating them. Whether the law should prohibit so treating them depends on one's view of the law: whether one believes, as the Founding Fathers (on the whole) did, that the law should prohibit only violations of rights, or whether (as on more recent views) the law should intervene also whenever there are cases of injustice.

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Justice and the Market

It has often been alleged that the free-market system is unjust. Criticisms of the free market constitute a very high percentage of the content of most college courses in ethics and social philosophy. It may be granted at once that no system is entirely just in every detail; there will always be cases of injustice. But the market system is by far the least unjust of all economic systems.

The Soviet Union does not have a market economy. A worker's pay depends not on his actual merit or productivity, but on what the bureaucrats in charge decide to pay each worker in a given category. The government decides that teachers shall receive a higher wage than physicians, and that factory workers shall receive a higher wage than filing clerks. Theoretically at least, each worker in a given category is supposed to earn the same—the assumption being that each one is maximally dedicated to the ideals of communism and therefore will exert maximum effort and achieve maximum productivity during his hours at work. How does this system work out in practice? A description by someone who defected from it provides a dramatic illustration:

> Nobody in the bus factory was in a hurry to work; the workers preferred to sit in the smoking room until the foreman appeared, when they all dashed to their places. "Why should we hurry for the money they pay us?" said the workmen. "Work's not a wolf, it won't run into the forest!" In the mornings they were almost all drunk or hung over, and throughout the working day people would be regularly detailed to slip over the fence for some vodka. Only one man put in a full day's work. The rest hated him, and when pointing him out would rotate one finger meaningfully by the temple. They were always looking for chances to do him dirt, either by surreptitiously damaging his machine or by stealing his tools. "Want to be a champion and raise the targets?" they said spitefully. It turned out that if one man exceeded the target, the target would be raised for all of them the following month, and they would have to work twice as hard for exactly the same money.[6]

The injustice of a system that penalizes the dedicated worker is too obvious to require comment—not to mention the effects on the worker himself: nothing ruins the morale of a human being more than being penalized for doing a good job.

Market Rewards

A market economy, by contrast, rewards initiative and enterprise. Not every employer recognizes talent immediately: there may be a period in which he pays a certain employee less than he would if he knew the employee's true worth. Yet the *tendency* in a market economy is for each person to rise to the limit of his ability. Since there are competing employers, if one employer doesn't

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recognize his worth, another one is likely to do so.

Don't those who work in some kinds of jobs deserve more pay than others? Yes, and the market sorts this out also. A person who does dangerous work, such as walking along the catwalk of a high bridge for safety inspection, is not likely to take such a job unless in doing so he earns more than he would as a janitor. Nor is a person likely to spend years of his youth going through medical school if at the end of the road he earned no more than he would have as a dishwasher. And a physician with a good record of curing diseases is likely to have more patients than one with a bad record; and doesn't the first physician deserve his greater reward? There is no one wage which one can describe as a *just* wage (surely this depends on the health of the economy, and what employers can afford to pay): if one wants a definition of a just wage, one could simply say that it is the wage that one's services can command on a free market. The fact that some persons' labor is worth more than others' is largely taken account of by the market itself.

A foreman complains that the manager who sits behind a desk all day receives more pay than he does. But the manager has the responsibility of coordinating workers' efforts and turning out a quality product. And the president of the firm, who earns more than the manager, has the awesome responsibility of trying to anticipate next year's market, and thus deciding how much of what to produce, what materials to order and from whom; on such decisions depends the continued existence of the firm. Doesn't the successful discharge of such responsibilities merit a higher income? Workmen and foremen who later become managers and members of the board seldom complain any longer about the disparity in income.

There are those who say that *no* one deserves the high pay received by some executives and corporation heads—that such high incomes somehow constitute an injustice. But what if the executive who receives $500,000 a year is talented and ingenious enough to save the company two million dollars a year without sacrificing quality of product? He has certainly been worth more than his pay to the company. The stockholders are anxious enough to pay him this, and even more rather than see him captured by another company. Should they be *prohibited* from paying him what they believe he deserves?

Misfortune vs. Injustice

If someone is unemployed because there is no longer any demand for his skill, he will have to set about acquiring another. But where is the injustice in this? Who is the perpetra-

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tor of the alleged injustice? The buggy-maker who no longer has any demand for buggies? Wouldn't it be unjust to the buggy-maker to force him to retain a worker he doesn't need, when most customers are buying cars instead of buggies?

Or suppose a man does have a marketable skill but at the moment there are no openings in his area. Is this unjust? It is unfortunate for him that he must either be unemployed or change jobs or move to another area, but there is no one who can be accused of treating him unjustly. The more a free market is permitted to operate, the more likely it is that he will soon find an outlet for his skills. Again, his unemployment may be a temporary misfortune, but not an injustice.

Suppose a farmer decides to grow soybeans this year, endeavoring to enrich the soil and to increase the output of the same product that made him considerable money last year. But suppose that many other farmers have the same idea, and as a result there is an overproduction of soybeans and the price of soybeans this year suffers a sharp decline. This is simply a reality of the market: "Given constant demand, if there's more of a product the value of each unit declines." Is this an injustice to the farmer?

If the farmer's crops are lost through drought or flood, this is a misfortune, not an injustice; but the fact that other farmers also planted soybeans is a deliberately undertaken human action, not a condition of nature. Still, where is the injustice? If the farmer had been wise, perhaps he should have planted something else this year; but how is the fact that other farmers also wanted to make money by planting soybeans an injustice to him? If he can plant soybeans, why can't they? It may be a misfortune that too many are grown this year and a surplus results; but where is the injustice? Who has been unjust to whom? If he had a reason to anticipate what other farmers would do, he is stuck with the results of bad planning on his part; but if he had no way of knowing, the financial loss can be described only as a misfortune, not as an injustice.

Justice vs. "Social Justice"

Those who are engaged in "social engineering" often characterize the concept of individual justice, described above, as outdated. What we need, they say, is *social* justice.[7]

But what exactly does this term mean? If justice is treatment in accord with desert, and deserts are unequal, then justice demands that treatments also be unequal. If everyone were given the same wage regardless of effort or achievement, we would have a society in which hardly anyone would choose to work at all; in the end there would be nothing

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left to distribute, and starvation would stalk the land. The ideal of justice as complete egalitarianism—everyone receives the same regardless of who does what or how much, or even if they do nothing at all—is contradicted by the most elementary facts of reality. It is not the idea of forcible redistribution that deters egalitarians—they have no objections at all to that—but only the fact that once the goose has been killed it can lay no more eggs.

Proponents of "social justice" do not, then, usually demand that every person (or every family) receive the same income. For reasons of sheer survival, this is not done even in the Soviet Union. What the proponents of "social justice" do demand, however, is that everyone, regardless of effort, ability, or achievement, receive a "decent standard of living"—which in urban America may include not only food, clothing, and shelter, but a telephone, a television set, and convenient means of transportation as "necessities of life." And who shall be required to pay for these things? Those whose income is higher; "justice demands" that those who are "more fortunate" be required to contribute to those who are "less fortunate." These are the popular name tags, and the underlying assumption is that if one person has more and another less, this is solely a matter of "luck" or "fortune," as if somehow individual ability and initiative had nothing to do with improving one's lot.

It is far from clear, however, how A being forced to give part of his paycheck to B is an example of justice: it would seem to be a case of injustice to A, and a windfall for B. And even if such transfer payments should be made, should they be done in the name of justice? The basis of justice is desert; the basis of charity is need: in charity, we give to others because they need it; in justice, we receive compensation (or punishment) because we deserve it. The difference between justice and charity should not be obscured.

The "Underprivileged" and Why They Are Poor

The poor are usually classified as "unfortunate" or "underprivileged," as if those who earned more had purposely deprived them. But this label, which social planners automatically attach to everyone who is below a certain level of income, applies only to some of them, certainly not to all. We must first investigate, which social planners almost never do, *why* they are poor.

1. Suppose a neighbor of yours is about to make an investment which you know to be fraudulent: he will lose everything if he makes the investment. Undeterred by your pleas, he does it anyway, and the result is that he loses everything. Would most

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people, including champions of "social justice," be willing to hand over part of their paychecks in perpetuity to a person who has merely been foolish?

2. Suppose a lady has been thrifty all her life, saved for her old age, and has a small house and yard; a second lady, with considerably more income, spent it all on riotous living and is now destitute. Should the first lady be required to give over part of her limited income each month to the second? (That is the way things work out under the current welfare system; but is this justice?)

3. Assume that a worker has been able to pay into old-age insurance but simply failed to do so, spending everything she earned. Now she is destitute. Should others, who *have* provided in advance for their old age, be forced to hand over a portion of their savings to the person who has not so provided? To do so may be charitable, but is it just?

4. Now let us take a different kind of case. A person is ill or has a physical handicap which does not enable her to work; she would like to, but she can't and her family has no resources. Shouldn't "society" take care of her?

Coercive or Voluntary

This is certainly the best case for welfare; but the question remains whether it should be government welfare (compulsorily paid by all wage earners) or privately financed welfare (voluntarily contributed by those who are able). Though the matter would require a lengthy discussion that is not possible here, I suggest that the persons who answer to this description are a comparatively small minority of the population, and that, once the enormous ball-and-chain of high taxation (including social security payments) was removed from every wage earner, and would-be entrepreneurs could start small businesses and take on employees without the present high probability that their enterprises will be bankrupted by taxes and regulation, there would be such a resurgence of prosperity that government welfare would be quite unnecessary: private funding would be quite adequate to the task, as it was during the first century of American history when the standards of living were much lower than they are now.[8]

Herbert Spencer was much wiser than today's planners when in 1884 he criticized "the tacit assumption that Government should step in whenever anything is not going right. 'Surely you would not have this misery continue!' exclaims someone, if you hint at demurrer to much that is now being said and done. Observe what is implied by this exclamation. It takes for granted, first, that all suffering ought to be prevented, which is not true; much of the suffering is cura-

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Supporters of Schemes

THE hard-worked and over-burdened who form the great majority, and still more the incapables perpetually helped who are ever led to look for more help, are ready supporters of schemes which promise them this or the other benefit by State-agency, and ready believers of those who tell them that such benefits can be given, and ought to be given. . . . Indeed the more numerous public instrumentalities become, the more is there generated in citizens the notion that everything is to be done for them, and nothing by them. Each generation is made less familiar with the attainment of desired ends by individual actions or private combinations, and more familiar with the attainment of them by governmental agencies; until, eventually, governmental agencies come to be thought of as the only available agencies.

HERBERT SPENCER, *The Man vs. the State*

tive, and the prevention of it is prevention of a remedy. In the second place, it takes for granted that every evil can be removed: the truth being that, with the existing defects of human nature, many evils can only be thrust out of one place or form into another place or form—often being increased by the change.

"The exclamation also implies the unhesitating belief . . . that evils of all kinds should be dealt with by the State. There does not occur the inquiry whether there are at work other agencies capable of dealing with evils, and whether the evils in question may not be among those which are best dealt with by these other agencies. And obviously, the more numerous governmental interventions become, the more confirmed does this habit of thought grow, and the more loud and perpetual the demands for intervention."[9]

Try Freedom

With an unfettered economy, and a minimum of charity (and most Americans have more than a minimum), the problem of poverty would become almost obsolete. Economist Thomas Sowell may have overstated the case, but he had a valid point when, in answering the question "How to get rid of poverty?" he answered, "Hold a meeting of all the leading experts on poverty somewhere in the middle of the Pacific and not let them go home for ten years. When they came back, they

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would discover there was no more poverty."[10]

It will be apparent by now that the demands of "social justice" are incompatible with those of individual justice; to the extent that the first demand is met, the second must be sacrificed. If the government takes money out of Peter's wallet to put it in Paul's, it may have achieved greater equality, but not greater justice. It is impossible for individuals to receive a just wage on a free market and then be forced to part with a portion of it, for then they receive *less* than a just wage.

The final irony is that the ideals of the champions of "social justice" are not even achieved when they are put fully into practice. Because people will not—and cannot—produce indefinitely without compensation, the final result of massive transfer payments is equality of zero—universal destitution. That, after all, is how the excesses of the late Roman welfare state gave way to the destitution of the Dark Ages.[11] It has happened many times in history, and it could happen again if the proponents of "social justice"—that is, enforced collectivism—push their demands so far as to cancel out the requirements of individual justice.

—FOOTNOTES—

[1]See, for example, Frederick Schoeman, "On Incapacitating the Dangerous," in John Arthur and William Shaw, eds., *Readings in the Philosophy of Law* (Prentice-Hall, 1984), and in Joel Feinberg and Hyman Gross, eds., *Philosophy of Law* (Wadsworth, 1981).

[2]Fyodor Dostoyevsky, *The Brothers Karamazov,* Modern Library edition, p. 254. (First published 1882.)

[3]Ayn Rand, "Racism," in *The Virtue of Selfishness* (Signet Books, 1964).

[4]See Louis Katzner, "Is the Favoring of Women and Blacks in Employment and Educational Opportunities Justified?" in Feinberg and Gross, *Philosophy of Law.*

[5]See also Walter Williams, *The State Versus Blacks* (McGraw-Hill, 1982); Warren Brookes, *The Economy in Mind* (Universe Books, 1982).

[6]Vladimir Bukofsky, *To Build a Castle: My Life as a Dissenter* (Viking Press, 1977), p. 123.

[7]See, for example, Richard Brandt, ed., *Social Justice* (Prentice-Hall, 1962); Nicholas Rescher, *Welfare* (University of Pittsburgh Press, 1972); Norman E. Bowie, *Distributive Justice* (University of Massachusetts Press, 1971); Robin Barrow, *Injustice, Inequality, and Ethics* (Barnes & Noble, 1982); Michael Bayles, *Principles of Legislation* (Wayne State University Press, 1978).

[8]See, for example, Henry Hazlitt, *The Conquest of Poverty* (Arlington House, 1978).

[9]Herbert Spencer, *The Man versus the State* (Caxton Press, 1940), pp. 34–35. Originally published 1884. See also John Hospers, *Libertarianism* (Laissez Faire Books, 1971), Chapter 7.

[10]Thomas Sowell, in *Reason,* December 1980 issue, p. 5.

[11]See Ludwig von Mises, *Human Action* (Regnery, 1945), esp. pp. 767–769; also Isabel Paterson, *The God of the Machine* (Caxton Press, 1943), pp. 38–40.

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Dean Russell

Competition and Capital

SEVERAL of Frederic Bastiat's parables or satires deal with the theme of unfair foreign competition, usually based on wage differentials (cheap foreign labor) but sometimes on other "unfair" advantages enjoyed by foreign producers, e.g., natural resources, capital formation, and so on.

In one of his stories, "The Candlemakers' Petition," Bastiat picked the ultimate example of unfair competition—a foreigner with such low costs of production that he actually gave his product away *free.* Obviously that price is difficult for domestic producers to meet, and is thus unfair. So Bastiat argued (tongue-in-cheek) that his government should pass laws to protect national industry against such an unscrupulous foreign competitor.

Bastiat's 1844 "petition" on behalf of the candlemakers and other purveyors of artificial lighting was addressed "To the Honorable Members of the Chamber of Deputies" in France, a group he himself joined in 1848.

"We candlemakers are suffering from the unfair competition of a foreign rival. This foreign manufacturer of light has such an advantage over us that he floods our domestic markets with his product. And he offers it at an absurdly low price. The moment this foreigner appears in our country, all our customers desert us and turn to him. As a result, an entire domestic industry is rendered completely stagnant. And even more, since the lighting industry has countless ramifications with other

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This is one of a series of articles examining current interventions of the welfare state in the light of warnings from the French economist and statesman, Frederic Bastiat (1801–1850).

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national industries, they too are injured. This foreign manufacturer who competes with us without mercy is none other than the sun itself!

"Here is our petition: Please pass a law ordering the covering of all windows and skylights and other openings, holes, and cracks through which the light of the sun is able to enter houses. This free sunlight is hurting the business of us deserving manufacturers of candles. Since we have always served our country well, gratitude demands that our country ought not to abandon us now to this unequal competition.

"We hope that you gentlemen will not regard our petition as mere satire, or refuse it without at least hearing our reasons in support of it.

"First, if you make it as difficult as possible for people to have access to natural light—and thus create an increased demand for artificial light—will not all domestic manufacturers be stimulated thereby?

"For example, if more tallow is consumed, naturally there must be more cattle and sheep. As a result, there will also be more meat, wool, and hides.

"Next, if more oil is consumed for lighting, we shall have to plant extensive olive groves and other oil-producing crops. This will bring prosperity to agriculture.

"In addition, our waste lands will soon be covered with pines and other resinous trees. As a result of this, there will be numerous swarms of bees to increase the production of honey. In fact, all branches of agriculture will show an increased development.

"The same applies to the shipping industry. The increased demand for whale oil will require thousands of ships for whale fishing. In turn, that will provide a myriad of jobs for shipbuilders and sailors. In a short time, we will also have a navy capable of defending our country. And that, of course, will gratify the patriotic sentiments of us candlemakers and other persons in related industries.

"The manufacturers of lighting fixtures will be especially stimulated—candlesticks, lamps, candelabra, chandeliers, crystals, bronzes, and so on. The resulting warehouses and display rooms will make our present shops look poor indeed.

"The resin collectors on the heights along the seacoast, as well as the coal miners in the depths of the earth, will rejoice at their higher wages and increased prosperity. In fact, gentlemen, the condition of every citizen in our country—from the wealthiest owner of coal mines to the poorest seller of matches—will be improved by the success of our petition."*

This argument for restrictions

*I've done my own translating, and I've slightly condensed Bastiat's story to the essentials needed to fully explain his brilliant point, *Complete Works of Bastiat,* Guillaumin, Paris, 1878 edition, vol. 4, pp. 57-62.

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against foreign competitors because of their presumed cost advantages (usually, but not always, cheaper labor) is the basic argument for tariffs, quotas, and other restrictions and prohibitions against international trade. Sometimes lip-service is paid to national defense arguments, health arguments, and a few others. But those arguments don't really carry much weight; our arms manufacturers are the world's best, and no one seriously objects to sound reasons for keeping infectious diseases and destructive bugs out of our country. The basic argument advanced by Bastiat in so many of his parables and explanations is the only argument the protectionists can really depend on, i.e., protection against unfair foreign competition that's destroying American jobs.

These "unfair" practices are seldom spelled out in advance, since it would be difficult to know what they are until they happen. They are positively identified only after a domestic producer loses business to a foreign competitor. When that happens, a "peril point" has been reached—always due to some unfair foreign practice, of course—and laws are passed (or called into action) to protect the domestic producer against the foreign producer. As a result of this "magician's tactic" of drawing our attention elsewhere, we never know the real reasons for the high costs of the domestic producer. Behind his protective law, there's no final incentive for him to improve his operations.

Well, let's take a look at some of the possible reasons (at home and abroad) that have a direct bearing on this entire problem of competition and capital formation, e.g., "unfair" foreign competition, the effects of capital formation (machines) on jobs and wages, the differences between domestic and foreign trade, and the effect of laws against foreign capital. Since all of these issues are inextricably mixed, I'll not here try to compartmentalize them but will use them as they come along. First, cheap foreign labor.

Cheap Foreign Labor

The most persuasive argument I ever heard for protection against competition from foreign labor didn't concern cheap labor at all but protection against *expensive* foreign labor. You may be as surprised as I was when I encountered that argument while I was a doctoral student at the University of Geneva, where I'd made friends with a student from Egypt.

I knew his country had one of the highest tariffs in the world. As a "free trader," I sometimes chided him about it and suggested that since labor was already so cheap in Egypt, surely they didn't need laws to protect them against foreign competition. He said I was wrong, that

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I was missing the real point entirely, that protection against cheap labor is indeed absurd, that the problem is competition from *expensive* labor, and that Egypt most definitely did need protection against that type of foreign labor. Here's how he explained it.

He correctly pointed out that the low production of Egyptian workers was due primarily to their primitive tools, i.e., the absence of capital or machines. As a result of this, he said, the cost of labor in Egypt is one of the highest in the world *when correctly measured*, i.e., labor cost per unit of production.

He then used the chalkboard to show me a mathematical comparison between the $25 an hour paid to the operator of a bulldozer moving sand—and the 25 cents an hour paid to 200 fellahin with shovels moving the same amount of sand. Even after the low cost of capital (the bulldozer) is paid, the real cost of labor in Egypt is almost double what it is in the United States.

He then argued that the workers in undeveloped nations simply can't compete against industrial workers with their efficient machines and the resulting high production. Always, he said, the cost of labor is lower (much lower) in nations with much capital than it is in nations with little capital. If it weren't for laws protecting our high-cost Egyptian labor against your low-cost American labor, you'd move in and most of our low-paid laborers would soon lose their jobs to your high-paid workers with machines.

He's right, you know, as far as he went. And in any case, it was a most refreshing argument which should (but most definitely won't) end that fallacious "cheap foreign labor" argument that's responsible for so many of our disastrous laws.

In reality, of course, it's the trading itself (not the relative wage scales) that causes real wages to rise in all nations that participate. In order to understand this better, let's start with a statement that's not subject to argument: No person in Egypt or the United States will voluntarily trade with a person in another country (or even next door) unless he puts a higher value on what he gets than on what he gives up. And thus both parties in *any* trade (domestic or foreign) necessarily benefit (or at least expect to benefit) from the trade.

Trading Across Borders

Actually, when all is said and done, there's no exclusively economic or theoretical justification for discussing domestic and foreign trade separately; they're identical in all respects—except for the purely arbitrary and artificial interventions of government. For example, in the United States, a manufacturer in southern California has no par-

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ticular difficulties in trading with a company in northern Maine, some 4,000 miles away. But when the same manufacturer tries to trade with a company in Tijuana, Mexico—perhaps four miles away—he encounters all sorts of frustrating, noneconomic, and cost-increasing prohibitions and compulsions that have been devised by the two governments.

The problems of transportation and distance (as such) are not something peculiar to international trade. Nor do differences of language and religion constitute special problems in trading across national boundaries.

For example, a Catholic manufacturer who speaks only Italian in Lugano, Switzerland, has no problem at all in trading with a Protestant retailer who speaks only German in Zurich. But when he attempts to trade with his Italian cousin just across the border (both speaking the same language and belonging to the same church), he encounters problems that are often insurmountable. All of these problems are created by government and are thus completely artificial, unnecessary, and cost-increasing.

Canada offers an example of how vast distances, different wage scales, different languages, different religions, and different cultural backgrounds present no real trade problems at all. But let a Canadian try to buy an automobile from Detroit just across the border!

Even different monies (yen, peso, dollar, whatever) present no real problem to any trader—if the various monies can be freely bought and sold. But when this is forbidden or restricted, problems do indeed appear. Again, however, they are artificial problems and are due entirely to governmental rules and regulations.

Why Some Are Hungry

In short, I'm convinced that any argument for free trade within a nation is automatically and necessarily an argument for free trade internationally. If a person advocates free trade domestically to increase our level of material living, he can't logically advocate protective tariffs and other similar measures to prevent goods and services from moving freely across national boundaries; for that would contradict his argument that free trade *within* a nation is good for all.

It's simply not true that a nation and a people are made more prosperous by compelling themselves to pay twice as much as they need to pay for goods and services they want. I'm convinced that these policies stem more from lack of understanding than from evil intentions.

For example, hunger is a fact of life all around the world. And since we all want to help, we identify the

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problem as "hungry people" and send food. You see the touching appeals for more food (money to buy food) quite frequently on your TV set or in your newspaper. But this hunger is the symptom of a problem, not the problem itself. *Why* are those people without food? Is their inability to produce food (or to produce goods and services to exchange for food) due to their stupidity or laziness? I think not. Then just what causes their continuing hunger, generation after generation?

I suspect the following personal experience goes far in identifying the real problem that causes so much hunger and human misery: I have a small amount of liquid capital, i.e., dollars that can be converted by labor into the real capital of machines, raw materials, and finished products. For various reasons, I would like to use this modest supply of capital in India. I'd like to take advantage of the unemployed (and underemployed) labor found there, to improve my own material well-being, and (since I'm a reasonably compassionate person) to also improve the material well-being of several Indian families who are now actually hungry.

Over the years, I've made the following proposal to several acquaintances in India, including two government officials. If you will permit me to come in, I said, I'll immediately hire at least ten people at better wages than they are now earning. Their working conditions will be more pleasant—and their employment will be steadier—than is now the case for any of them.

It's self-evident I would have to fulfill those promises before I could possibly persuade anyone to use my machines; for obviously, no one would work for lower wages than he's already earning. Even so, I always include in my offer the posting of a performance bond.

Solving the Problem

What I propose to do is to try to solve the *cause* (the real problem) by showing a few hungry people how to produce enough goods and services to feed themselves and their families on a continuing basis. And please note that I propose to back my judgment with my own capital, not the taxpayers' money.

So why don't I do it? The answer is shocking. The Indian government refuses to let me in. "No foreign imperialist is ever going to exploit us again," they proclaim in various words and tones. And they mean it; they're firmly convinced that India was once a prosperous nation, and then the imperialist British came in and took it all back to the British Isles, thus leaving India poor again. I sure do wish someone would identify that "it" for me.

Anyway, I once visited India and lectured at four universities there.

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And I was fortunate enough to get interviews with the prime minister of India, the vice president, and two ministers. They were all nice people, even though not one of them understood what I was talking about. They think only in terms of applying to the United States Department of State for more government-to-government grants-in-aid. And they almost always get them. Their threat to turn to Russia is a sure-fire way to get us to agree. And thus they continue to treat the consequences of the problem (not enough food to feed starving Indians) instead of the problem itself (government intervention in the market place).

True enough, two of those Indian acquaintances informed me that I *can* enter India with my machines, under certain conditions. First, I must produce what the government wants produced; I'm not permitted to make the decision alone. And I must locate where the government specifies; I can't make that decision for myself. Further, I can't just rush out into the street and hire whom I please at whatever wages we agree on; those are important matters that must be cleared with the proper government official.

While I will be permitted to try to earn a profit, it must be "reasonable"; the figure of a four-to-eight per cent return on my invested capital was mentioned. But in return for all this, the Indian government is also willing to sacrifice a bit; it will guarantee not to nationalize my company for at least ten years.

And then the leaders of the Indian government wonder why (private) foreign capital doesn't flow in! And the empty bellies continue to multiply far faster than any "green revolution" can possibly increase the rice and wheat yields. And *our* government officials (as well as the officials of the Indian government) continue to treat the symptoms of the problem rather than to face up to the problem itself. In all fairness, I suspect the fault is lack of understanding, not joy in observing hungry people.

Until quite recently, I taught a graduate course in International Business Problems. Naturally there were several lectures dealing with the material covered in this article—foreign competition, foreign investments, how to measure and compare wage rates, the effects of capital formation on standards of living, the effect of governmental intervention on capital formation, and so on. At the end of the course, however, students always got my "never trust a politician" lecture. Since most of those students were already working for companies with considerable international business, I offered them a single idea they could take back to the boss, if they wished.

If you are ever involved in selecting a foreign country in which to

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build a new plant or distribution center for your company, I advised them, begin by ranking the "candidate countries" according to the extent of controls imposed by the respective goverments on their own domestic economies. Since this is the most important measurement of all, do it first, before any other criteria are applied. The leaders of *any* government can logically be expected to lean internationally in the same direction they deliberately follow internally. You can depend on it. Thus before you commit your company's capital (the final security for your own job) to an enterprise in another country, know what's likely to happen to it *politically.*

Ephemeral Promises

I'm increasingly astonished at how many leaders of private business in the United States ignore the clear evidence of what the leaders of foreign governments *choose to do* in their own countries, and believe instead in their ephemeral promises. What's the attitude of the Russian leaders toward private capital? Well, that's their attitude toward your capital, whatever they may say to you. Since private capital is not permitted in Russia, what causes you to imagine your capital can be safely invested there?

"But they promised...," you say. Yes, I know. And they can "unpromise" just as quickly and sincerely.

"But my own government leaders promised me that if...," they continue. Again, yes I know. I also know that the old American axiom "Never depend on political promises" is not just a joke; it's based on hard reality, long observed.

There's another "old saw" I recommend to your attention: Look at what they do, not what they say. That applies to the leaders of *all* governments.

I frequently use just two countries to illustrate my point — both close to home and reasonably well known, Mexico and Canada. When I examine the attitudes of those two governments (their laws and traditions) toward private *domestic* capital, I have a reasonably good guide concerning what's likely to happen to my own capital. I don't much care what promises the leaders of the respective governments make. Even if they're sincere (they may well be), I put no faith at all in their promises. They simply can't be trusted. It's not that they're bad people; they're just ordinary people who earn their livings being politicians.

If the leaders of a "controlled economy" offer you great tax concessions, beware. If the leaders of a free economy don't offer you any tax concessions at all, put that down as a plus, not a minus. Always look at the *real* picture, not the postcard; look at the internal controls over domestic capital, which is what your

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own capital becomes when you send it there.

Do you really believe that the leaders of a foreign country will favor you above their own people? If you're that gullible, I would say to my students, this "investment advice" isn't for you; the odds are you don't have any capital anyway.

Why should they offer concessions to get your money in, when all they need do to raise large amounts of capital is to repeal the restrictions on domestic capital? I'm baffled as to why our banking leaders (who may well rank higher in "intelligence tests" than any other group of leaders) didn't ask themselves that question years ago.

Not too many of the students took my advice, of course. They mostly wanted to know if that idea would appear as a question on the final exam. I can't fault them for that; it's always good thinking when you try to find out as much as you can about events that can be profitable to you. Whatever, when I finished with that particular lecture on "capital formation and international investment," I always felt they had at least gotten something for their tuition money in addition to an A or B in my gradebook.

THE LAW by Frederic Bastiat

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Ernest G. Ross

Let's Liberate Money

ALTHOUGH the idea of returning to a gold standard has received considerable attention in recent years, the general focus has been to return to some sort of government managed standard. For instance, there has been a great deal of talk about reinstating a variant of the Bretton Woods gold standard—which proved to be a terrible failure. (For details, see Henry Hazlitt's latest book, *From Bretton Woods to World Inflation*, reviewed by Bettina Bien Greaves in the June 1984 issue of *The Freeman.*)

The difficulty with any state-overseen approach to revitalizing and protecting the monetary system is that it misses the *essential* point about sound money. Sound money in the long run requires separation of money from state.

A state-run monetary system is self-destructing; it leads to its own eventual erosion as politicians gradually give in to temptations to inflate. Over and over, history has shown the truth of this proposition. Despite any heartfelt promises they may make, there is no rational basis for expecting future politicians to behave substantially better than their predecessors. Under any command-money system, politicians solemnly promise to resist the seductive power of inflation. But government control of money supersedes their resistance; government controlled money is a powerful *attractive nuisance*

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which corrupts even the noblest of intentions.

Therefore, if one wishes to discuss the *best* way to bring back sound money, he must seriously consider money privatization.

As the idea of money privatization is not one generally familiar to the lay reader, let us deal with the issue by answering some common objections.

1. **What does it really mean to privatize money?** Privatized money is minted, issued and backed by the private sector—for instance, banks or mining companies—with government playing no major role in the process. About all government does is what it does with weights and measures: sets the basic conversion rate for the dollar. In fact, a true gold-backed dollar is precisely a question of a measured weight: a dollar would equal a specified weight of gold.

Privatized money takes the inflation machine away from the government—by doing away with the machine entirely. It is well known that inflation is economically destructive. But inflation is in the final analysis a government caused problem arising from the government's monopoly over money. If you take away the monopoly, you take away the ability of politicians to print too much currency—currency which they use to serve a long list of "justifiable" purposes of wealth redistribution.

2. But wouldn't private money tend to be unstable, subject to market whims? No. First, remember that the government would still be responsible for seeing that a dollar—any dollar, issued by anyone—would represent a specific weight of gold. To say that private money would be unstable if private parties issued it is equivalent to saying that yardsticks would be unstable unless no one but the government manufactured them. Clearly, that is nonsense. Private companies manufacture perfectly accurate, reliable yardsticks; a yard is the same whether the yardstick is made by the government or a hundred private companies—because all use the same standard.

There is another relevant point here: a different way of stating the elimination of the inflation of money is that it is precisely a *stabilization* of money. Money privatization has an inherent advantage over government money.

Economically, a free market is always more stable, healthier, than a controlled market.

A free monetary system, one of privatized money, separates money-valuation from government and thus helps separate wealth-preservation from state authority and hence from state meddling. This means that

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savings and investment can be undertaken with more confidence. Businesses can better plan and are less afraid of what a change of administrations or Federal Reserve governors might bring about every few years. In short, people across the nation, whatever their economic endeavors, are able to focus on market forces and not government force as far as money values go.

(It is quite likely that under a private money system, there would be no need whatsoever for a Federal Reserve. Money measurement standards could be maintained by the Bureau of Weights and Measures.)

3. Well, how would a system of private money work in actual practice? The use of money itself never changes in basic form. Money is simply a medium of exchange, used as a store of value. However, because private money is out of the major turmoil of the political winds, it works much better than government-monopolized, fiat money—just as any private market tends to work better than a government-run market.

Not only do issuers of private currencies use the pre-set gold-weighted measure for their dollars, the market itself rapidly assures that there is no fudging, no unrealistic money expansion, involved. The private market sees that firms do not issue more dollars than they can reasonably back with gold. Better-valued currencies achieve greater acceptance and circulation, eventually dominating the markets.

4. But if all dollars were convertible into a specific weight of gold, why would the issue of competition among currencies even arise? For the same reasons that some people prefer to buy company A's yardsticks than company B's. People ask which dollar is "better made," esthetically and structurally. Also the stockholders of a money-issuing firm have a powerful interest in monitoring the solvency and wisdom of the firm's policies.

Beyond this, users of money seldom all ask for their gold at once. Thus, a company may issue dollars in excess of its actual gold holdings, in anticipation of being able to meet conversion demands—as long as the firm is prudently managed.

If the market feels the company is not well-managed, or that the company is issuing more currency than it can reasonably be expected to convert to gold, that currency quickly falls out of favor.

5. But this sounds a little uncertain. How would the market be able to keep up on the many competing currencies—and how would money users gain protection from potentially imprudent money-issuers? To answer the last

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part of the question first, above and beyond the protection afforded by stockholders' monitoring of company prudence, there is no reason why currencies cannot be insured. Once you bring insurance companies into the picture, they immediately and necessarily seek to protect *their* investment by themselves monitoring the money-firms' health and wisdom.

Further, rating services can play a role. There are already companies which rate various monetary instruments, such as Moody's or Standard and Poors (in bond markets, for instance). Rating agencies are common in the United States in many fields—such as Consumer Reports, which rates an incredibly wide variety of private consumer goods, and Underwriters Labs, which rates electrical products.

There are no major difficulties for the private market to keep tabs on the solvency of private currencies. With modern computers, the equivalent task is done minute-by-minute on millions of shares of stocks or on competing international government-run currencies. No major innovations are needed in order to keep tabs on private U.S. currencies.

6. But wouldn't privatizing money be a massive, almost impossibly complicated task? Not really, for the private market does most of the work. While it is better to move directly from a fiat system to private money, even if we move from a government gold standard—assuming for the sake of argument that we get one—implementing a private monetary system is no more difficult than it was for private companies to take over the parcel post market, which they now largely run.

Money privatization requires no elaborate groundwork and virtually no government oversight or expenditures. All that is needed is a simple piece of legislation ending the government monoply on money. The idea is to open the U.S. currency system to competition—*without* necessarily wiping out the government-backed dollar right away.

When parcel post was opened to private competition, it was not necessary to wring our national hands over which specific companies would accept the challenge of parcel post delivery. This was not something one could rationally foresee. The markets decided. Companies that wanted to compete with the Postal Service did it. Over time, the more efficient private parcel post companies—such as United Parcel, Federal Express, and Purolator—came to dominate the market. But people still could use the Postal Service if they wished.

In short, no bureaucrat can or should try to foretell who or what private individuals or firms will dominate the production of private

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currencies. The market will be the best arbiter. The gradualism of this type of transition is orderly and painless for the nation—except, of course, for those politicians used to paying for their free lunches with fiat money!

7. But how could the U.S. government pay for its services without controlling the currency? Taxation and currencies are not necessarily tied to one another; this merely indicates how closely most people have come to associate a fiat system with taxation—probably because they subconsciously realize, or have heard, that fiat money inflation is "back door" taxation.

Under private money, inflation is for all intents and purposes abolished—but that in no way affects taxation for essential government services, such as national defense.

Instead of confiscating taxes denominated in U.S. Federal Reserve notes alone, the government takes money denominated in weights of gold. At tax time, you do exactly what you do now: write a check to Uncle Sam (but very likely drawn on a private-money account). If Uncle Sam has a question about the check, or if the check bounces, well, laws against bad checks already exist.

Nor are wage withholdings a problem. Withholdings are merely a percentage of earnings. The percentage and withholding payments are unaffected by whether the wealth of earnings is measured in government or private dollars, because, again, *all* dollars are by law claims for a specific weight of gold.

8. What about the international effects on the U.S. dollar? Wouldn't money privatization severely shock the markets, and perhaps weaken the dollar? We must remember two things: This program would be *gradually* phased in and would necessarily result in a type of gold standard.

As the program would not, *could not,* be instituted overnight, there would be ample time for international markets to adjust to the situation.

Gradual, prudent institution of a system does not psychologically lend itself to panic—but rather to calm. It's not when governments move *toward* sounder money that markets are shocked, it's when they move *away* from sounder money—such as Nixon's closing of the (limited) gold window in 1971. It is not *less* government command of money that is feared, but *more.*

Because the move to private money would be perceived as a move to untamperable money, the rest of the world would quickly perceive the birth of modern dollars of unprecedented strength. The world would understand that dealing with private, gold-backed money would be no

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more difficult than dealing with more than one type of stock or bond, with more than one parcel post company, with more than one maker of yardsticks.

Returning to a gold standard is the American way. As Bernard H. Siegan wrote, "The evidence is most convincing that the delegates to the Constitutional Convention of 1787 intended to devise a currency based on gold and silver. Their problem was draftsmanship; they did not write this purpose carefully enough into the Constitution to prevent the Supreme Court from applying an entirely different interpretation." (*Wall Street Journal,* June 18, 1984.)

Beyond the practical considerations of private money, there is the moral question: Is it *right* for government to hold total control over the medium of exchange? The answer should be clear: It is no more morally proper for government to tyrannize the making of money than it is for government to tyrannize the economy as a whole. Such control is pure violation of individual rights, a substitution of command for consent in a nation's medium of exchange.

Is it not time for us to live up to the intended rationality and heritage of the Founders? Returning to a gold standard is the American way. Returning to private money is the ultimate form of a gold standard for a free people.

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Judith Anne Still

The Negro and Free Enterprise: A March Forward Singly

WHEN the signers of the Declaration of Independence surrendered the cause of slavery before the battle for freedom was engaged, they participated in a betrayal of the new nation's full democratic potential. Man as a group marched forward; man as an individual was forced to retreat. The mistreatment of the Negro was such an embarrassment to the American past that Thomas Jefferson confessed to having "trembled for his country" when he considered the implications of slaveholding practices.[1] However, when the United States government was returned to the concept of universal individual worth—when, with the Emancipation Proclamation, every man was theoretically free to function within the economy—the Negro advanced rapidly toward legitimizing the democratic promise and toward expanding the meaning of the American Revolution.

Operating singly and earnestly within the free enterprise system, the members of the colored race triumphed over slavery, illiteracy and discrimination in a shorter period of time than any other people in history. Owing to the ability of mankind to seize opportunities where available and to excel where merit is required, the Negro has made strides which are phenomenal, especially in view of the gauntlet that the black man has run from the seventeenth century to the present.

The Negro has been a victim of a subjugative economic system which was destined to fail, if not through industrialization or Civil War, cer-

The author is the daughter of William Grant Still (1895–1978), the "Dean of Negro Composers." Still was the first colored man to write a symphony which was played by a major orchestra in the United States, and the first to conduct a major symphony orchestra in America.

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> I like America because—despite all its imperfections it is the land of promise and the proof of progress. A part of something is better than all of nothing. Negroes have a part of the great promise; they are working to win all of it.
>
> **—Edith S. Sampson,**
> The Negro Digest, *December 1950*

tainly through the efforts of individuals who would not be subjugated. Afro-Americans very early revealed themselves as men of initiative. Some few of the achievers were still in bondage, and therefore were not often credited with their advances: Eli Whitney's cotton gin, patented on March 14, 1874, was, in reality, invented by one of the Whitney slaves. Even so, most of the enterprising Negroes were freemen, who, like the white nation-builders, made use of their freedom to grow and prosper. In fact some 500,000 free Negroes resided in the United States by 1860.

Freeman Anthony Johnson, the first Negro capitalist, was the owner of 250 acres and 5 servants in 1651, a little more than thirty years after he made his home in Jamestown, Virginia. Paul Cuffe (1759–1817), whose father was a free Negro and whose mother was an Indian, educated himself and then set out to learn the skills of a shore whaling man. By the early nineteenth century he was a ship captain, the owner of a trading schooner, and a merchant capitalist. With a portion of the money that he saved from his livelihood he built a meeting house and a school for his community.[2]

Progress Among Freemen

As the nineteenth century unfolded, there were other Afro-Americans who found acceptance into the life and economy of the nation regardless of slavery. One of Boston's largest clothing businesses was owned by Thomas B. Dalton, a Negro; John Forten, an Afro-American sail-maker in Philadelphia, had a forty-man interracial staff; and John Jones, a Negro in Chicago, developed such a prosperous tailoring business that he was worth close to one million dollars at the end of his career.[3]

As the biographies of men like Paul Cuffe and John Jones suggest, most of these achievements in the days of slavery were individual efforts, although some group projects were begun. The first Negro mutual benefit insurance society was established in Philadelphia in 1787, and was called The Free African Society. Membership cost 16¢ per week and benefits after a year were 57¢ per week. Afterwards came Philadelphia's African Insurance Company in 1810.

At the onset of the Civil War, Negro businesses primarily provided

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personal services, and for a while after the War these businesses continued to prosper. There were Negro laundries, secretarial schools, buggy factories, confectioners, livery stables, undertakers, hair dressers, restaurants, boarding houses, hotels, catering outfits, coal yards, tailor and barber shops, cleaning and dyeing establishments and carpet-making and construction enterprises. A significant figure in the period was Madame C. J. Walker (1867–1919), whose invention and manufacture of hair preparations made her America's richest Negro woman.

Post-War Setbacks

Post-Civil War industrialization and the enlargement of capitalism pushed the Negro out of the higher ranks of labor and even out of some of the personal service enterprises which had been his. In addition, though the Negro was gaining in farm ownership, the unscientific agricultural system in the South produced failures which impelled him to leave the land and to migrate to cities in the North and Midwest. This migration brought an increase in economic rivalry, labor discrimination and racial unrest. As a result, The Freedmen's Bank, a project of white philanthropists designed to give ex-slaves the means to purchase property, failed in 1873.

Clearly the post-Civil War Negro was facing incredible barriers against advancement. Most ex-slaves lacked schooling and employment, and those who had jobs received such low wages that they were unable to gather investment capital. They were, in truth, "the last hired and the first fired."[4] Furthermore, there were laws restricting the colored man's ability to own property, to use public facilities and to get redress of grievances in the courts. Negro businessmen, excluded from the leading trade associations, were left to cater to an impoverished market.

Into this atmosphere of unreasonable confinement stepped the Negro churches and fraternal societies. Minority preachers and teachers began to encourage ex-slaves to become self-confident, to adopt an aggressive but Christian attitude toward race relations, and to cooperate with one another in the establishment of new businesses.

Insurance Companies

The surge toward cooperation led the fraternal orders and lodges to stimulate the creation of the first significant Negro insurance companies. In 1881 the "True Reformers" insurance company was organized in Richmond, Virginia. The True Reformers Bank was added to this enterprise, soon after the first Negro savings bank, Capital Savings, opened its doors in Washington on October 17, 1888. The True Reform-

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ers organization was so solid that it managed to weather the economic traumas of 1893, and by 1900 it insured 50,000. Moreover, it maintained ownership of a newspaper, a home for the aged, a hotel, several grocery and merchandise stores, and a real estate department with a handsome amount of property.[5]

By 1905 twelve banks had been opened by colored people, and the largest Afro-American insurance companies had been formed. The insurance firm which inspired the greatest faith in the future of Negro free enterprise was North Carolina Mutual.

In 1898, Dr. Charles Clinton Spaulding, a grocer, John Merrick, the barber to the head of the American Tobacco Company, and Dr. A. M. Moore, another barber, formed the North Carolina Mutual and Providence Association. This association was to become the biggest minority enterprise in the nation and gave impetus to the formation of numerous other companies.

Among these companies was Atlanta Life, the second-ranked Negro insurance company, founded by Alonzo F. Herndon. Like Merrick and Moore, Herndon was a barber, and the owner of one of the most prosperous shops in the country. A third important firm was Liberty Life in Chicago, parented by Frank L. Gillespie. Gillespie was so enthusiastic about his work that he secured the authority to sell $100,000 in stock for Liberty Life, then sold $300,000 in stock in just sixteen months. As one of the insurance men said in this era, there was a "missionary spirit" among educated young Negroes about going into business.[6]

Booker T. Washington

Assuredly some of this missionary spirit was attributable to the Negro preachers. Some was also due to the work of Booker T. Washington, a political and social theorist who dominated the thinking of Negro businessmen at the turn of the century. Washington felt that colored people could seek economic integration with white people, while giving up social integration. He promoted college training, "thrift and capital accumulation,"[7] economic opportunism and self-reliance. Ultimately his beliefs motivated him to organize the National Negro Business League.

Washington's influence was so widespread that, by 1915, there were 600 chapters of the League, and he could point with pride to the steps that had been taken in the right direction. He wrote, "Recently there was organized in Indian territory a company for owning and operating oil wells. In Jacksonville a company of colored men built and conducted a street railway. In Nashville a company has been organized to run a line of automobiles in opposition to the street railway company of that city.

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Since 1906 no less than 15 banks have been organized in different parts of the country. A large number of grocery and dry goods stores have been organized and conducted as joint stock companies."[8] This momentum, coupled with the economic stimulation brought about by World War I, effectively generated the "Gilded Age of Negro Business" in the 1920s.

Negro Business in the 1920s

By 1924 there were 65,000 colored businesses with an aggregate wealth of $1,700,000,000.[9] New corporations proliferated, and their numbers included an oil company, a stock exchange, a steamship line and a finance association. Heman Perry, a Negro entrepreneur, built a magnificent financial empire made up of banks and real estate development companies, as well as farming, fuel, construction and engineering firms.[10]

Perry's business pyramid eventually collapsed due to overextension of his resources, but other firms survived difficulties by merging. Harry Pace of Northeastern Life in New Jersey, Earl B. Dickerson of Supreme Life and Casualty in Ohio, and Truman K. Gibson Sr., the Harvard graduate who began Liberty Life in Chicago, brought their enterprises together. They created Supreme Liberty Life of Chicago, which supplanted Atlanta Life as the second most profitable Negro business on the globe.

While the larger businesses improved their financial status, individual businessmen also prospered. Robert Goode built a fine Negro summer resort, and Edward Brandford set up one of the most prominent advertising agencies on the East Coast.[11] The reason for the triumph of individual Negroes like Brandford and Goode over great odds was given by Paul E. Johnson, the manufacturer of Universal Physical Therapy Equipment for hospitals and physicians. Johnson declared, "I reject the dictum that color alone is ample to prevent patronage being secured from other racial groups providing merit is built into the products or services that are offered for sale. Such has been my experience in life."[12]

The ability of the colored businessman to gain mastery through merit was the primary source of his survival during the Depression. It was significant that only two Negro insurance companies failed during the lean years. In addition, there were many Negro intellectuals who spoke to the rank and file in opposition to a welfare economy. James H. Hubert, colored journalist, denounced Negro farmers who declared that their land was too substandard to provide income. Hubert noted that his father had been allowed to buy land in Georgia only be-

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cause he purchased property so infertile that no white person wanted it. It was only by virtue of his father's unstinting labor that the farm became one of the most-sought-after in the state.

James Hubert's conclusion, drawn from personal history, was that economic security gleaned from an outside source was not a desirable goal. "The road to success," he observed, "is not always the road most dotted with service stations. Permanent security still seems to come to him who can do that which most people cannot do, or can do very much better."[13] As an example of this principle of "equality inspired by quality," Hubert told the story of John Miller of Georgetown, Kentucky, the merchant who attracted a 75 per cent white trade by selling products superior to those of his competitors.

Faith in Free Enterprise

It was their faith in the effectiveness of free enterprise and hard work that brought Miller, Hubert and others through the Depression and World War II unconquered. By the late 1940s the colored man still fought the battle of retail competition with chain stores and mass-marketing organizations, and he did not cease to have the problem of securing credit. But his insurance companies, banks, real estate firms and cosmetic manufacturing plants continued to grow. Afro-American publishing flourished, particularly when John J. Johnson organized The Johnson Publishing Company, Inc., soon to be the third largest Negro business in the country.

From 1900 to the 1940s, the Negro population increased 46 per cent, while the number of Negro-owned businesses rose 116 per cent.[14] The high growth rate was collective, yet the source of the ascendancy was in individual effort: that is, in singular men putting education, experience and energy above racial distinctions. For instance, designer Robert S. Blackburn, the developer of plastic books for children and other educational toys, said that he reached his professional goals by going after what he wanted without anticipating discrimination. While job-hunting in New York he interviewed many personnel managers to ask what the chances were for his attainment of a responsible position in their companies. When he finally found a firm which promised promotion in spite of race, he accepted a job as a guard and worked his way up to designer.[15]

At mid-century Negro business was still small business, but its accomplishments were admirable considering the odds against it. Discriminatory employment practices continued, and Afro-Americans still encountered problems in cultivating the general market; the only colored bank in the Federal Reserve System

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was Citizens Trust Company of Atlanta.[16] In spite of obstacles, however, Negro purchasing power rose to $17½ billion in 1954, having increased 250 per cent since the early 1940s.[17] The 60 leading Negro insurance companies had assets of $137,708,766, with over $20 million in first mortgage loans.[18]

The fitness of the leading firms attracted the interest of professional men who had money to invest. In 1965 a group of doctors, lawyers and dentists in Chicago established a bank surrounded by the first Negro-built shopping center, a project which covered four acres. Also in Chicago in the 60s, a multi-million-dollar car wash complex was built by colored people. And S. B. Fuller, the international Negro industrialist and publisher, covered an entire city block with his mammoth department store, food mart and office building.[19]

In Chicago and beyond, some inroads were made into the general market by Parker House Sausage Company and Fuller products. The majority of Negro businessmen looked with favor upon attempts to integrate with the larger economy of the nation because, as Earl B. Dickerson put it, "Corporations have no color or complexion. We must get into the mainstream." Unless we do, "we cannot be free—economically or otherwise."[20]

Today the field of progress has been virtually won. Only a quarter of a century after the time that Spaulding, the president of North Carolina Mutual, was prevented from purchasing a soft drink at a stand in his own twelve-story building, North Carolina Mutual proclaimed assets of over a billion dollars[21] and remained the largest Negro-owned business in the world. Afro-American firms have proved themselves in the corporate field, have entered trade associations, and have made advances in mass retailing, manufacturing and wholesaling.

Successful Blacks

The encyclopedia volume, *1,000 Successful Blacks,*[22] lists over 150 executives and owners of thriving businesses. Negro-owned enterprises include airlines, machinery-leasing corporations, land development companies, mortgage and investment companies, certified public accounting firms, an employment bureau for executives, marketing and management consulting companies, computer operations firms, plastics manufacturing companies, advertising agencies, consulting engineers and so on.

In addition, in the mid-1970s there were 72 Afro-American board members of corporations such as IBM and General Motors. There were also numerous Afro-American corporate executives in companies like Atlantic Richfield, General Foods, Chase

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Manhattan Bank and Johnson Products Company.[23]

Other examples of integration into the mainstream are significant. Advertising men such as Vincent T. Cullers hold accounts of major corporations, including Sears Roebuck, Bristol-Myers, and Bell Telephone. Willie L. Daniels began the first Negro firm to become a member of the New York Stock Exchange. Negro Clarence C. Finley is executive vice-president of Burlington House Products Group. E. Frederic Morrow, a vice-president of Bank of America, the world's largest bank, was the first colored man to become a White House aide when he was appointed to President Eisenhower's staff. Morrow has also served as a public relations analyst for Columbia Broadcasting System. George Anthony Moore was the first of his race to become a producer and director of a United States television station.

It is probably through the influence of these aspiring Negroes that the majority of Afro-Americans are moving into the middle class. In 1973 over 50 per cent of the black population in the North earned more than $8,000 annually, and in the South over half made $6,000 per year.[24] There has been over a hundred per cent increase during the last ten years in the numbers of Negro college students, managers, officials, business owners, and professional and technical people.

Individual Advancement

Clearly the Negro has advanced individually, and, owing to individual advancement, as a race. The colored man's energetic functioning in the free enterprise system has been an indicator of his developing status, and an aid to his progress socially and politically. Furthermore, as each singular Afro-American entrepreneur has risen above his circumstances, he has extended the significance and reality of democratic principles in the United States.

Undoubtedly, when each of these men is accepted on his own merits rather than as part of a group, the nation will be freed from the betrayal of democracy inherent in race prejudice. Bigotry is the main weapon of oppression. Meanwhile, freedom and humanity are compatriots in the democratic cause; if one exists, so will the other also, in an atmosphere of cooperation and developing excellence.

The essence of the victory won by Negro individualism and enterprise is revealed in the achievements of Paul R. Williams, one of the first Negro architects in the country. Williams was noted for designing more than 3,000 elegant homes, hospitals and government buildings. He contended that one of the reasons for his pre-eminence in his work was a fierce desire to prove himself in spite of job discrimination and institutionalized bias. When he was forced to ride in

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Jim Crow cars he became committed to presenting evidence that he "as an individual deserved a place in the world."[25] He concluded, "We march forward singly, not as a race. Deal with me, and with the other men and women of my race, as individual problems, not as a race problem, and the race problem will soon cease to exist!"

—FOOTNOTES—

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IDEAS ON LIBERTY

Individual Freedom

To sustain the individual freedom of action contemplated by the Constitution is not to strike down the common good, but to exalt it; for surely the good of society as a whole cannot be better served than by the preservation against arbitrary restraint of the liberties of its constituent members.

JUSTICE GEORGE SUTHERLAND

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Hans F. Sennholz

Employer of Last Resort

DURING the 1984–85 school year American high school debaters have been weighing an important resolution:

> **Resolved:** *That the federal government should provide employment for all employable United States citizens living in poverty.*

On the affirmative side students are expected to argue that the federal government shall strive to abolish poverty and, if necessary, act as employer of last resort; on the negative side they are likely to oppose the use of government for such ends.

High school students at last are catching up with the political debate that has animated their elders since the first New Deal. In 1935, President Franklin D. Roosevelt proposed to make the federal government the employer of last resort, proclaiming that "one third" of the American people were "underfed, underclothed, and underhoused." Thirty years later, President Lyndon B. Johnson declared his "war on poverty," which was to liberate some twenty percent of the population. President Jimmy Carter, during his term of office, waged his special war on poverty. All three made the poverty of some 40 million Americans the central issue of their public policies. Indeed, all presidents have echoed a deep concern for the poor.

And yet, the poor are still with us. Their faces have changed, but their numbers hardly ever vary. Armed with poverty statistics, their spokesmen suggest that past government

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efforts were half-hearted and indecisive. The war, they argue, must be carried on with unrelenting vigor and dedication until victory is won. They would make government the employer of last resort.

Poverty in America

Other observers may draw entirely different conclusions. They may object that the poverty data itself may be erroneous and misleading. When compared with living conditions throughout the world there may be no poverty at all in the U.S. Most Americans have never seen the true face of poverty, which is visible in many other countries. It reveals hunger, disease and early death. In the U.S. even the least productive members of society live in relative abundance and comfort when compared with their counterparts abroad. Among his foreign peers the American pauper is an object of envy and the U.S. the target of pauper immigration.

American poverty statistics are built on levels of income. Families earning less than a stated dollar amount are defined as poor or poverty-stricken; families earning more are believed to be above the poverty line. A brief observation of the living conditions of the American poor, however, may suggest a different conclusion. It may reveal that forty percent of poor families own their own homes; eighty-six percent of these "very poor" homeowners have no mortgage debt. Some fifty percent have liquid savings of $500 or more. In Harlan County, Kentucky, the heartland of depressed areas, it was found that eighty-eight percent of the poor families have washing machines, sixty-seven percent have TV sets, forty-two percent have telephones, and fifty-nine percent own cars. (*Newsweek,* February 17, 1964, p. 20)

Most Americans now designated as poor and indigent would resent the label if they actually knew that the poverty warriors are talking about them. As a graduate student at New York University and a part-time accounting clerk, I never earned more than $1,500 a year, which sufficed to pay $35 tuition per credit and put me through school. Even as a young college instructor, the poverty definition included me. With all my heart I resent this supercilious and derogatory description of those important years of my life. It is obvious that the poverty politicians who are accustomed to spending billions of other people's money have lost touch with economic reality and the meaning of life.

In every society some people are more prosperous than others, some are poorer than others. In the eyes of a critical observer, anyone who earns less than he does, may be poor. To a millionaire anyone with less than a million may be a pauper. To

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a poverty warrior anyone who belongs to the last 10 percent, 20 percent or 30 percent of income earners may be poverty-stricken. In fact, the concept of inequality of income and wealth always comprises the poor.

Government, Cause or Cure

Lengthy unemployment may impoverish a person and put him in a poverty bracket. More than seven million Americans are mostly unemployed, suffering declining incomes and living conditions. Alarmed at such statistics, the poverty warriors managed to pass the Humphrey-Hawkins Full Employment and Balanced Growth Plan Act of 1978. And yet, unemployment continued to rise. Defining "full" employment as no more than 3 percent adult (4 percent overall) unemployment, the warriors are now proposing to reach that level by using government as employer of last resort.

Most government programs seeking to alleviate poverty are treating the effects of unemployment; they never touch the causes. In fact, they completely reverse the cause and effect relationship by depicting the federal government as a *source* of employment rather than a primary *cause* of unemployment. They blame commerce and industry for the unemployment and call on government to correct the evil. They propose to grant more power to politicians, officials and bureaucrats and call for extensive government intervention. And yet, by confusing cause and effect they fail to accomplish their stated objectives and even make matters worse. During years of radical government intervention unemployment actually rises and levels of living usually fall.

The champions of government power and intervention are sadly unaware that government is the primary cause of unemployment. They do not understand that employment is a price and cost phenomenon, and that mass unemployment is the inevitable effect of any government measure that directly or indirectly raises labor costs. A law or regulation that boosts Social Security taxes, unemployment compensation taxes, workman's compensation taxes, or in any way raises the cost of labor, reduces the demand for labor and creates unemployment. Boom and bust policies conducted by the Federal Reserve System may generate cyclical unemployment. Minimum wage legislation may deny employment to the least productive workers. Labor legislation that grants restrictive powers to labor unions may bring stagnation and unemployment to unionized industries.

Minimum wage legislation bars millions of young people from the labor market. Although they have limited training and experience, the

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federal government may issue an order that they be paid a minimum rate of $3.35 per hour. Moreover, it forces employers to pay a number of fringe benefits, from Social Security to national holidays, which may boost the worker's employment costs to $5 or $6 per hour. If a person does not add this amount to production, if he fails to cover his employment costs, he is a candidate for unemployment.

Before the days of minimum wage legislation high school and college students were always welcomed by commerce and industry. From the first day of vacation to the last, young people used to work in offices and stores, workshops and factories, working their way through school or supplementing family income. Unfortunately, these ways of the past have given way to minimum wage legislation, which condemns young people either to remain in school, to join the armed forces, or be unemployed. At $5 or $6 an hour there may be no economic demand for their services.

Minimum wage legislation is the evil product of a political system that bestows favors and benefits on some classes of people at the expense of others. It favors the employment of

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skilled workers who are earning more than the minimum by denying employment to unskilled workers earning less. This is why labor unions representing skilled workers are fervent champions of minimum wage legislation.

Business Provides Employment

Poverty warriors like to depict business as the culprit behind poverty and unemployment. In reality, business is the only genuine source of production, employment, and income. It is bidding for labor in order to serve its customers. It eagerly employs labor as long as it is "productive," that is, its net addition to output is positive. In other words, as long as it does not cost more than it is producing, labor is in great demand. When it costs more than it is adding to the production process, when it takes income from investors and entrepreneurs, when it becomes "destructive" to employers, it is discharged. In this case production is more productive without it.

Governments and unions are forever raising labor costs and thereby causing unemployment. Business is adjusting continually in order to prevent the unemployment. When the federal government raises its Social Security exactions and state governments boost unemployment compensation taxes, which may significantly raise the cost of labor and thus the rate of unemployment, business is straining to prevent the unemployment through cost adjustments. It may seek to offset the mandated costs with other cost reductions. In particular, it may reduce fringe benefits, delay inflation adjustments, elicit greater effort and draw out more efficient production. Whenever and wherever business is successful in offsetting the boost in labor cost it succeeds in preventing threatening unemployment. If laws, regulations and work rules prohibit the cost adjustment, business has no choice but to lay off loss-inflicting workers. Production is more productive without them.

It is no coincidence that the strongholds of unions are also the centers of unemployment. In the steel and auto industries the union rates are more than double the market rates of industrial wages paid for similar labor throughout the American labor market. Union rules generally deny efficient use of labor and prevent cost adjustment. Ugly strikes by angry workers further increase labor cost. It cannot be surprising, therefore, that unionized industries are barely managing to stay afloat in an ocean of unemployment.

Job Programs Destroy Jobs

The unemployment generated by governments and unions is as severe and persistent as the force that is causing it. It is holding millions of Americans in its sinister grip and re-

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ducing them to poverty. To make government their employer of last resort is to put the culprit in charge and urge him to continue his transgressions. He will create more unemployment than he will provide jobs through a variety of make-work schemes. Facing mass unemployment, government may launch leaf-raking and snow-shoveling programs, build highways and public buildings, embark upon slum removal and urban renewal, or engage in any other economic activity. It may ostentatiously hire thousands of idle workers and become their employer of last resort. Unfortunately, the politicians who launch the programs and the poverty warriors who advocate them, are blissfully unaware of the consequences of their policies. They completely overlook two inevitable effects that tend to destroy more jobs than government can create:

1. When government appears on the labor market and engages idle labor it tends to support or even raise the labor costs that are causing the unemployment. It is removing the pressures for readjustment. By placing purchase orders for steel, automobiles, trucks and tanks it gives employment to idle steel and auto workers. But it also sustains their wage demands that exceed market rates, and thereby reinforces the cause of unemployment. Government tends to prolong and intensify the suffering of idle workers by encouraging them to cling to unproductive labor costs.

2. Government has no source of income and wealth of its own. Every penny spent is taken from someone. It may be exacted from taxpayers, borrowed from lenders, or snatched from inflation victims. If it takes $50,000 to give employment to one idle worker, taxpayers, lenders or inflation victims must be reduced by that amount. Their reduction consumes business capital, which in turn lowers labor productivity. Falling productivity, together with rigid labor cost, render more labor "unproductive" and cause it to be unemployed. And even if it were to consume no business capital, and labor productivity were to remain unchanged, the losses suffered by taxpayers and inflation victims would force them to curtail their consumption and the employment they would otherwise provide. While government may create one $50,000 job, which under bureaucratic conditions and circumstances would be a low-cost job, it probably destroys the jobs of two or three workers serving taxpayers and inflation victims.

Federal Assistance Reduces Levels of Living

Government reports are quick to point out that government assistance is sustaining those truly in need. According to one study, with-

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out any kind of assistance forty-one million people, or 18.8 percent of the population, would live below the poverty level. Cash assistance alone allegedly cut this number in half. If in-kind transfers are included, 13.5 million Americans are left in poverty. If medical care is included in the calculation, the poverty level includes only nine million people, or 4.1 percent of the population. (*Press Release,* Executive Office of the President, Office of Management and Budget, March 12, 1982)

In 1983 Federal cash programs supported 24.5 million elderly people living in retirement, 4.3 million disabled workers and their dependents, and 8.9 million survivors. They provided Medicaid and Medicare assistance to 47 million aged, disabled and needy Americans, approximately 20 percent of the total population and 99 percent of those over 65. They granted housing assistance to 3.4 million American households, and subsidized approximately 95 million meals per day, or 14 percent of all meals served in the country. They made available 6.9 million post-secondary awards and loans to students and their parents, and provided training for almost one million low-income disadvantaged people. They paid supplemental allowances to more than 7 million people, unemployment compensation to more than eight million, and granted food stamp assistance to 18.6 million individuals. Government sustained 3.5 million men and women on active military duty and their dependents, and some 27 million civilian employees and their dependents. Altogether, some 80 to 90 million Americans are dependent on tax dollars.

The Burden of Dependents

Whatever their numbers, the dependents weigh heavily on the economic well-being of their supporters, the taxpayers, lenders and inflation victims. Their inactivity and absence from economic production keeps society poorer than it otherwise would be. It visibly reduces the levels of living of the providers, discourages their productive efforts, and deprives them of the funds needed for productive investments. Surely, there cannot be any doubt that 80 to 90 million dependent Americans constitute a heavy burden on productive Americans.

Poverty warriors are encouraged by these transfer statistics. If 80 to 90 million Americans already are enjoying full support, another 7 to 10 million may not upset the transfer system. The warriors may be right. But they, too, must admit that there are limits to the burden the remaining producers can carry. All transfer systems have limits beyond which economic production is bound to decline and poverty is certain to multiply.

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Dirk Yandell

Occupational Licensing

IN these "deregulatory" times, the ingenuity of governments and special interest groups in constraining free enterprise is astonishing. Recent legislation has continued to block entry into particular markets by requiring governmentally provided licenses as a condition for operating in those markets. The licensing of professional and occupational special interest groups is a significant affront to a free economy. Licensing is defended by its proponents as a means of ensuring minimum standards of competency or quality. More often it has been used as a means of restricting entry, to limit competition and preserve the high wages earned by the existing group of practitioners.

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Literally hundreds of occupations require licenses. Those of physician, lawyer, and mortician are well known. Many others are less well known, but each is administered by a state governmental board with its own set of rules and procedures. Not surprisingly, the boards are generally composed largely of current license holders.

In California, the last several months have seen the following groups receive license protection:

Auctioneers. The California Auctioneer Commission was created, requiring that all auctioneers in the state be examined and licensed.

Dieticians. A "Title Act" was passed to prohibit anyone from using the title "dietician" until examined and recognized by the Department of Health Services. Workers can continue to do the same work they have always done with-

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out being "recognized," they just can't use the title "dietician."

Dog Patrol Operators. This bill requires those who sell guard dogs to be examined and licensed by the Bureau of Collection and Investigative Services. It also requires employees of protection dog providers to register with the Bureau.

Real Estate Agents. Although licensed for many years by the Department of Real Estate, the Legislature has recently passed a bill which will require additional educational training for prospective real estate agents and brokers.

Respiratory Therapists. A nine member Respiratory Care Examining Committee was established which requires examination and licensure of all respiratory therapists in the state.

Soil Engineers. This is another "Title Act" to prohibit the use of the title "soil engineer" by anyone who has not been examined and certified by the State Board of Registration for Professional Engineers.

Tax Preparers. The State Preparer Advisory Committee now exists to license California's tax preparers.

These occupations now join the hundreds of others that have been granted license protection. The list of protected professions follows no apparent logic. Licensing is required for barbers and dentists, plumbers and accountants, architects and boxing promoters, building contractors and manicurists, employment agents and shorthand reporters, geologists and pest control operators. The list seems endless.

Who Is Protected?

Whenever restrictions are placed on new entry, the incumbent group is able to obtain an income above competitive levels. Legislators too often forget this fact, and succumb to the pressure of the special interest lobbyists. The lawmakers usually have good intentions. "Protecting the consumer" is the cry most often heard, as lawmakers continue to think that consumers need to be protected from shoddy quality and "unscrupulous" behavior. This protection is to be accomplished by passing laws. Of course, the law is to be administered by the state board, consisting of "experts" in the business who are generally licensed automatically under a "grandfather clause" which exempts those already in business from examination. This board typically has the power to establish the rules under which new licenses will be issued. They determine the minimum standards that potential entrants must meet and the number of new licenses to be issued each year.

The State Bar of California provides a striking example of the workings of a licensing body. The Bar was created in 1927, and was established as a public corporation within the judicial branch of government. Membership is required for any attorney wishing to practice law in California. The State Bar currently has over 75,000 members, repre-

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senting over one-seventh of the nation's lawyers.

Law students are licensed after passing the California State Bar Exam. The traditional test was a three-day exam that contained essay and multiple choice questions covering different areas of the law. In July of 1983, the California Bar exam was modified to include a "performance" section. The new section is supposed to measure practical skills, including problem-solving ability and case analysis. In addition to the more lengthy exam, the passing score on the July test rose from the usual 70 per cent to 71.1 per cent. The higher limit resulted in disqualification of 1300 prospective lawyers, who had met the traditional 70 per cent standard. One explanation for these events is that the Bar found the number of practicing lawyers growing too quickly, and tried to control the entry of competitors. If so, the action was unsuccessful. Due to protests and potential lawsuits, those who scored between 70 and 71.1 per cent were eventually granted licenses. The grading system was clarified for subsequent exams to avoid similar problems.

Licensing Requirements Create Monopoly Power

Licensing requirements create a legal cartel for the benefit of an occupational group. A cartel can only endure and maintain high profits for its members if it is able to control the behavior of its members and limit the entry of potential competitors. Licensing boards accomplish both of these tasks. Licensing limits the number of practitioners in an occupation by creating artificially restrictive qualifications for entry. The result is an induced scarcity of trained personnel. The licensing boards also establish a variety of rules and guidelines for their members. These limit the freedom of many individuals. Contractors, for example, must be licensed in each of the specialties they intend to pursue. Work cannot be performed in any other specialty unless considered "supplemental" to the work being done in the assigned specialty.

These monopolistic conditions reduce competition and increase prices. Consumers are not the only ones who lose. The unreasonable or arbitrary entry requirements for many occupations deny many skilled workers the chance of achieving the profession of their choice.

Many have recognized that restraint of trade is inherent in California's state boards and commissions. This appears to be a clear violation of Federal antitrust laws. Antitrust exemptions are granted only where there is reasonable "state action." Constraints are considered lawful if they are authorized by the state and if there is independent

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state supervision of the occupation or trade. It stretches the imagination to consider supervision "independent" when an occupation is controlled by a state board consisting mainly of licensed members of that profession.

Need for Re-evaluation

It is time to step back and consider the need for the licensing and regulation of occupations for the purpose of "protecting the consumer." In a free society, consumers are well equipped to protect themselves. The market forces of supply and demand lead to an efficient allocation of resources. A free exchange of goods and services, without the interferences and restrictions of government, is the most effective means of promoting efficiency and increasing public welfare. Workers providing services to the public have a direct incentive to perform well. A good reputation and satisfied customers are necessary ingredients for the success of a business. Those who do not meet the expectations of their customers will not last in a competitive market. Our legal system exists to provide the consumer recourse if work is not performed satisfactorily. Private property rights, and a legal system to protect them, are all that is necessary to "protect the consumer."

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IDEAS ON LIBERTY

The Monopoly Problem

THE great monopoly problem mankind has to face today is not an outgrowth of the operation of the market economy. It is a product of purposive action on the part of governments. It is not one of the evils inherent in capitalism as the demagogues trumpet. It is, on the contrary, the fruit of policies hostile to capitalism and intent upon sabotaging and destroying its operation.

LUDWIG VON MISES, *Human Action*

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The Spirit of Enterprise

WE are in the middle of an entrepreneurial revolution that has surprised everybody, from monetarists such as Milton Friedman to the budget balancers who fear that venture capital won't be forthcoming as long as billion dollar deficits hang over our heads. The econometrists haven't caught the pitch because they have not found a way to feed the X factor of human ingenuity into their computers. The true prophet of the age is George Gilder, whose *The Spirit of Enterprise* (New York: Simon and Schuster, 274 pp., $17.95) proves the case for his contention that it is what individualists make and manage, not what economists measure, that constitutes the real economy.

What struck me, when I was immersed in writing a history of American business, was the way that new enterprises took off whether money consisted of greenbacks or gold, or whether the country had venture capital to spare or not. Bright ideas such as the Colt revolver and the first Tin Lizzie made their own markets and found backers despite money panics and strikes and even government-sponsored efforts to build railroads that led to nowhere. This does not mean that questions of money are not important. But it does mean that the X factor of the human mind, if it is permitted to function freely, will override all the other factors that make for easy statistical tabulation.

Gilder is convinced that we are in the middle of a so-called knowledge revolution whose boundaries defy charting. While the companies comprising the *Fortune* 500 were having their troubles, and actually employing fewer people, the new small businesses in the United States jumped from a 180,000 figure for 1963 to 600,000 for 1983. The publisher of *Inc.* magazine, Bernard Goldhirsch, notes that when big IBM was missing the mini-computer market, little Digital Equipment Company seized the opportunity to become a giant in its own right. California's Silicon

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Valley phenomenon was born in the garages of students who had learned their physics and chemistry from some remarkable instructors at Stanford University. The Stanford students didn't have venture money of their own. But the microchip found its way into industry nonetheless.

Roundabout Creativeness

George Gilder makes his points about the roundabout creativeness of the entrepreneurial process by telling some remarkable stories. He notes that while the pampered children of "entitled" parents "ache at the burden of laboring from nine to five," the entrepreneurs, willing to hold three jobs at one time, rise before dawn and work happily from five to nine. The entrepreneurs ignore politics. But the politicians who ignore the entrepreneurs are amazed when, in the periods when Atlas shrugs, "the great physical means of production . . . dissolve into so much scrap, ruined concrete, snarled wire, and wilderness."

In Idaho George Gilder ran into a character named Jack Simplot. Simplot's father had scratched a living from 120 acres of sand grubbed out of the sagebrush mainly by hand. Though the young Simplot did not abhor work, he saw no need of punishing himself when there were more ingenious ways of making a living available. The adolescent Simplot made his first killing by collecting "bum" sheep (extra lambs from broods of twins and triplets that could not be suckled) from neighborhood farmers. When the time was ripe he sold the sheep back to the farmers for the princely sum of $140. When the price of pork went below the cost of producing it, Simplot used his lamb money to buy up runt pigs that might otherwise have been doomed to mass graves. He fed the runt pigs on unwanted potato culls. Meanwhile the disgruntled pig farmers were getting out of the pork business. Eventually Simplot was able to dispose of his pigs in a most favorable sellers' market.

From his knowledge that even stored potato culls could be worth money, Simplot started to explore methods of keeping vegetables in cold storage. He also began drying potatoes and onions for the army. He emerged from World War II a "bold and happy business warrior," ready with the capital and the technical knowledge to take on a contract for supplying French fries for Ray Kroc's McDonald's chain of restaurants west of the Mississippi. It was at this point that the millions started to roll in.

From Gold Mines to Silicon Chips

George Gilder's point is that no econometrist in the world could have foreseen the happy accidents that led from Jack Simplot's first purchases of unwanted lambs and pigs to his

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connection with Ray Kroc's fast food business. The final chapter in the Simplot story is the most amazing. With money burning in his pockets Simplot planned an adventure in Latin American gold mining. He visited the Dominican Republic, where the high price of gold had suddenly made a mine started by Christopher Columbus's son, Diego, extremely profitable. But the Dominican government proved to be too grabby about the split it demanded from mine profits.

So it was back to Idaho for Simplot. Close to home he discovered some young scientists and entrepreneurs who had ideas about crowding more and more memory items on to a silicon chip. Though he could not have made a semi-conductor by himself, he liked what the "farm boys" of the Micron Company had to say. Deciding to give them a run, he asked, "What'll it take to get her rolling?" The answer was "four million." "All right," said Simplot, "we'll go for it." So the lamb and pig and French fry potatoes money went into a high-tech business that has flouted the belief that silicon chips can be assembled into packages more cheaply in offshore plants than at home. The whole roundabout process by-passed the capital markets of the East and the computers of the econometrists in Cambridge, Massachusetts and Philadelphia.

Going on from Simplot, George Gilder proves that the process he has been tracing from an obscure beginning in a potato patch is far from being singular. His account of how John Masters, a 1948 Yale graduate, hit upon a great natural gas reservoir in Alberta and British Columbia is just as thrilling as the Simplot saga. Masters, an unemployed explorer from Tulsa, Oklahoma, had no money and owned no oil reserves. But he had some ideas and some brilliant friends. He went into the mountains of western Canada when all of the big oil companies were pulling out. As he summed up his problem, "The process of finding oil is essentially analytical reconstruction of geologic history in order to determine the probable hiding place of oil and gas accumulations that are buoyant, mobile, and constantly seeking upward escape . . . It has elements of a detective story, a spy mystery, the search for a hidden tomb."

To solve the labyrinthine puzzle in western Canada, Masters took the data from old electric log books and integrated the information with the knowledge acquired by fresh drilling. Following from outcropping to outcropping, Masters hit upon some massive telltale cliffs of pebble conglomerate which had the "sorting and grading" of an ancient beach. "You could hear the sea gulls," Masters said. "They were screaming across a hundred million years of

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time." The conglomerate outcropping was the key needed to confirm Masters' theory of an immense basin of natural gas. Unfortunately the nationalistic policies of Pierre Trudeau have militated against the full exploitation of Masters' discovery.

The new Proposition Two-and-one-half property tax limitation in Massachusetts came in time to help one of George Gilder's heroes sell a cheap and effective water purification system to the town of Pittsfield. As long as there was no limit to the tax money available to municipalities Milos Krofta could not persuade the politicians to listen to his claims that he had a better purification method that would cost the taxpayers less money. But when the law actually took money away from the town councils, Krofta began to get a hearing.

Gilder's sections on Japanese entrepreneurship point up his purely American chapters. The story of Honda, who owed nothing to government, should surprise nobody who is conversant with the story of Henry Ford. Gilder has theories about the spiritual motivation of the entrepreneur, and in many cases they may very well be true. But motivation doesn't really matter as long as the entrepreneur's independence is respected. The big lesson is to leave the enterprisers alone. If we do, they'll take care of all of us.

CIVIL RIGHTS: RHETORIC OR REALITY?

By Thomas Sowell
(William Morrow & Co., Inc., 105 Madison Avenue, New York, NY 10016), 1984
164 pages ■ $11.95

Reviewed by David M. Brown

"Oh, what a tangled web we weave, When first we practice to deceive!" wrote Sir Walter Scott. Thomas Sowell recalls this eloquent couplet as he retraces the tortuous path of civil rights legislation from equal opportunity to reverse discrimination. Along the way he overturns many untenable assumptions, exposes contradictions, and lucidly expounds the logic of liberty.

Sowell acknowledges the historic significance of a great nation's voluntary repudiation of "its own oppression of part of its own people" in the 1954 *Brown v. Board of Education* decision, but he detects in the *Brown* case the seeds of subsequent "political, constitutional, and human crises." This institutionalized the pernicious practice of judging people as members of a group, rather than as individuals.

It is observed that some groups within society are better off financially than other groups. The civil rights vision assumes that wealth differentials result from discrimination, which only political interventions can remedy. The view im-

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plies that discrimination alone accounts for significant group economic differences, and that discrimination effectively suppresses the economic progress of those who are its target.

These assumptions are not regarded as hypotheses to be tested, but as axioms too obvious to be questioned. Overlooked in the civil rights vision are the cultural patterns which differentiate one group from another. Cultural patterns influence the lifestyles, and thus the financial situation, of a group's members, and these patterns transcend the immediate context of any given society.

Take the case of the Chinese minority of Southeast Asia, which "has been—and continues to be—the target of explicit, legalized discrimination in various occupations, in admission to institutions of higher learning, and suffers bans and restrictions on land ownership and places of residence. Nowhere in Malaysia, Indonesia, Vietnam, Thailand, or the Philippines have the Chinese ever experienced equal opportunity. Yet in all these countries the Chinese minority—about 5 percent of the population of Southeast Asia—owns a majority of the nation's total investments in key industries."

Political action has been neither successful nor necessary in improving the conditions of various immigrant groups in America. Many have *avoided* politics during their rise from poverty to prosperity—the Jews and the Germans, for example. The Irish, on the other hand, are an instance of a politically successful group whose economic rise was much slower than that of others until their political machines fell into decline in the 20th century. "It would perhaps be easier to find an *inverse* correlation between political activity and economic success than a direct correlation. Groups that have the skills for other things seldom concentrate in politics," writes Dr. Sowell.

Civil rights legislation in general has not accelerated ongoing trends in the economic improvement of different groups; statistics show that such laws have actually led to consequences opposite to those intended.

Dr. Sowell does see a possible benefit to be derived from the modern civil rights debacle. "If there is an optimistic aspect of preferential doctrines," he writes, "it is that they may eventually make so many Americans so sick of hearing group labels and percentages that the idea of juding each individual on his or her own performance may become more attractive than ever." Thomas Sowell's carefully documented research contributes mightily to that end.

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IDEAS HAVE CONSEQUENCES

Any idea becomes our own as we are exposed to it and accept it and practice it and can explain it to friends—all done without coercion.

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